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Interpretation of Deng's Views Criticized

93CM0428A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese No 7.
11 Jul 93 pp 15-19

[Article by Zhang Zhuwu: "Several Issues Brought to Mind During the Reading of *Memorandum on Preventing Problems of Leftism*"]

[Text] Seeing the recently published *Memorandum on Preventing Problems of Leftism*, I read some of the articles in the book; during the reading, several issues were brought to mind.

1. With regard to the issue of opposing certain tendencies, Comrade Deng Xiaoping emphasized two sentences, not just one sentence; it is imperative to comprehensively understand and implement what he said.

Early last year, in his important southern inspection remarks Comrade Deng Xiaoping sincerely reminded all comrades in the party: "It is necessary to be vigilant against rightism. But the main task is to prevent problems of leftism." However, some people failed to understand this argument made by Comrade Deng Xiaoping in a comprehensive manner, and even choose what they need. Comrade Deng Xiaoping clearly said two sentences, but many of the articles in the book only talk about one sentence, never mentioning the sentence, "it is necessary to be vigilant against rightism." Comrade Deng Xiaoping clearly said that the main task was to prevent problems of leftism; for in the history of our party, left ideas have been deep-rooted, and leftism presents the main obstacles to breaking down the systems and ideas confining the development of productive forces in the process of reform and opening up. However, in terms of their basic tone, some articles have changed "preventing problems of leftism" into "fighting leftism," as if our party has in recent years adopted a left deviationist line, with problems of leftism rampant everywhere. In the articles, they use phrases like "extreme left forces," "leftist figures," "old leftist organizations," "gentlemen suffering from the left disease," and "left devils." Some articles say that "in China there is a left village which is noted for the large number of households specialized in using clubs." Some of the articles even suggest that "leftism represents the main contradiction" at the present time or even during the entire historical period of the self-perfected socialism. Therefore, it is necessary to be "irreconcilably hostile to the left devils," and to use their own methods to deal with them, and "to fight the left devils to the finish." . . . What those people really are can be seen from the kind of language they use.

In the classics, leftism or rightism is a political concept, and has its definite meaning. They mainly refer to political-line mistakes relating to political tendency, but not to usual ideological or cognitive problems, or differences of opinion or even errors in actual work. It is necessary to conduct specific analysis on the basis of seeking truth from facts, but not to lightly describe those

problems as problems of being left or right in terms of political tendency. The 14th CPC Congress explicitly pointed out that it was necessary to be vigilant against rightism but that the main task was to prevent problems of leftism, so that all comrades in the party, especially the leading cadres, could learn lessons from history in a profound manner, study the lessons in connection with present-day reality and their thinking and work, improve the conscientiousness and resoluteness in implementing the party's basic line, emancipate the mind, seek truth from facts, and have a common mind and common will, so as to be successful in economic construction and other undertakings. Our party's approach to the issue of leftism and rightism has always been that of fighting rightism where there are problems of rightism and fighting leftism when there are problems of leftism. It is necessary neither to fight leftism on the basis of regarding it as rightism, nor to fight rightism on the basis of regarding it as leftism; it is necessary neither to fight rightism from a left position, nor to fight leftism from a right position. In short, to fight rightism, it is necessary to prevent problems of leftism; to fight leftism, it is necessary to prevent problems of rightism.

But many articles in *Memorandum on Preventing Problems of Leftism* have deviated from the spirit of seeking truth from facts, a spirit which has always been advocated by our party, and criticized many things—including conducting socialist ideological education in rural areas, conducting education on opposing peaceful evolution, conducting the struggle against the trend of thought advocating bourgeois liberalization, persisting in arguing that the system based mainly on public ownership should not be changed, enhancing the mentality of ruling, and giving emphasis to the effort to make sure that leadership powers are in the hands of those faithful to Marxism—that our party has done in the past few years as representing the "wandering and resurrection of the ghost of the Cultural Revolution." They either exaggerate the significance of matters or verbally abuse people, wilfully claiming, on the basis of their subjective views, that there are various factions in our party or among the people. Such conduct is neither conducive to emancipating people's mind, developing democracy, broadening the channels of communication, and mobilizing all positive elements, nor conducive to uniting the whole party and people and consolidating and developing the political situation characterized by unity and stability. Such a tendency should arouse our attention; and it is surely necessary to sharpen our vigilance against an extremely small number of people with ulterior motives among those people discussed above.

2. The precondition for building socialism with Chinese characteristics is keeping to the socialist road.

According to one view expressed in *Memorandum on Preventing Problems of Leftism*, the issue of whether something is "capitalist" or "socialist" should not be raised if the work of reform and opening to the outside

world and the work of building socialism are to be carried out. Anyone raising such a issue is automatically considered to be "applying the theory of making class struggle the key link to a specific case." Such a view is obviously untenable. As Comrade Deng Xiaoping has always emphasized, the four modernizations that we are promoting are preceded by four Chinese characters, that is, socialism. Our reform is the self-perfected and development of the socialist system. A very important principle among the four cardinal principles is that of keeping to the socialist road. The basic line is the basic line in relation to building socialism. The failure to adhere to this principle constitutes bourgeois liberalization and a manifestation of rightism; adherence to this principle ensures the socialist direction of reform and opening to the outside world, and does not represent leftism. In his southern inspection remarks, Comrade Deng Xiaoping said that "the crucial issue is that of whether something is capitalist or socialist." But this does not mean that we should not raise the issue of whether something is "capitalist" or "socialist" in the process of building socialism with Chinese characteristics. That remark was aimed at the situation where in the process of reform some people failed to move forward rapidly and did not dare to take actions, for fear of embarking on the capitalist road. Under the precondition of keeping to the socialist road, in the process of reform and opening up we can of course boldly take actions and conduct experiments in regard to adopting the series of specific measures and methods such as establishing the special economic zones, issuing securities, establishing stock markets, and developing market economy; in this respect, we should neither be apprehensive of everything, nor conduct debate over whether those specific things are "socialist" or "capitalist."

As I recall in this regard, recently some people have made disapproving comments on the socialist ideological education in rural areas, linking such education activities to leftism. One article in *Memorandum on Preventing Problems of Leftism* lumps together the socialist ideological education conducted widely in rural areas in recent years and the socialist education campaign carried out just before the Cultural Revolution. This is an erroneous view. As is known to all, in recent years socialist ideological education has been carried out across the rural areas at different times under the guidance of the party's basic line; such education has raised the socialist consciousness on the part of the peasants at large, enhanced the peasants' confidence in building socialism with Chinese characteristics, and promoted the construction of the two civilizations, producing good results. As early as immediately before the founding of the PRC, Comrade Mao Zedong said that the serious issue was to educate the peasants. From today's perspective, this argument is still correct. According to Marxism, the working class is unable to spontaneously produce Marxism. It is necessary to instill Marxism among the working class, to continuously educate the working class, and to raise the class consciousness on the part of the working class.

If so, is it not also necessary to educate the peasants and to raise their consciousness? In short, it is necessary to analyze the socialist ideological education carried out widely in the rural areas on the basis of seeking truth from facts. Toward the end of last year, Comrade Jiang Zemin pointed out that this work was finished in many rural areas, localities that are still engaged in this work should conclude the work on the basis of implementing the spirit of the 14th CPC Congress, in a satisfactory manner, and that the crucial thing was to produce real results. In fact, we have not done enough in regard to this work; so we have not been excessive, much less being left. The issue for the future is to further enhance the work. Of course, in conducting the work of socialist ideological education in rural areas, it is necessary to take account of the party's various rural policies, and to safeguard the peasant's economic interests; it is absolutely impermissible to harm the peasants' interests.

3. The struggle against peaceful evolution will go on for a long time; we can never relax vigilance.

In view of the lessons from the 1989 domestic turmoil and the counterrevolutionary rebellion in Beijing, and in view of the complicated international situation created by the drastic changes in East Europe and the dissolution of the Soviet Union, our party has emphasized the need to sharpen vigilance and to frustrate the peaceful-evolution strategy of domestic and foreign hostile forces that are in collusion, and educate all people on the struggle against peaceful evolution. Such actions should be beyond reproach. Some people believe that such actions constitute engaging in leftist activities, but they are wrong. Some articles in the book conclude: Taking charge of economic construction on the one hand and taking charge of fighting bourgeois liberalization on the other hand, leading ultimately to efforts to combat peaceful evolution, constitute "making class struggle the key link," "establishing another focus," and deviate from the policy of making economic construction the focus.

All this has raised a series of questions that we cannot avoid: Is there a struggle between peaceful evolution and the effort to combat peaceful evolution? Is it still necessary to fight peaceful evolution in the process of socialist modernization? Is it still necessary to continue to criticize bourgeois liberalization and the trend of thought advocating democratic socialism? How do we correctly evaluate education on opposing peaceful evolution that we carried out over the past several years?

First, in the primary stage of socialism, the struggle between peaceful evolution and the effort to combat peaceful evolution will go on for a long time. This is an objective fact that will not be changed because of people's subjective wills. For, capitalism is capitalism in any case, and those controlling the state power in a capitalist country are the bourgeoisie in any case. Vainly hoping to change socialism through evolution or even to eliminate socialism is their set policy. The bourgeoisie will not change their nature. With regard to this matter, we

should have no kind-heartedness and illusion at all. In his report delivered at the 14th CPC Congress, Comrade Jiang Zemin pointed out: "In the process of socialist modernization, the struggle between peaceful evolution and the effort to combat peaceful evolution will go on for a long time; we can never relax vigilance." This remark reiterated the necessity and the long-term nature of the struggle against peaceful evolution, and fully supported the view that our party's practice of fighting peaceful evolution was correct. Surely, in the actual struggle against peaceful evolution, it is necessary to pay special attention to conducting the struggle on the basis of being in line with the state's foreign policy. We should unite with even more countries and peoples around the world in an effort to fight reactionary forces opposed to socialist China. All this requires high fighting skills as well as the use of flexible and effective tactics. As far as the actual situation is concerned, although the main contradiction in today's society is not class struggle, class struggle still exists to some extent. We will suffer great losses if we ignore the class struggle that exists to some extent. The serious lessons from the 1989 turmoil and the counterrevolutionary rebellion in Beijing have testified to this point. Therefore, in the new historical period, every party member, especially a high-level cadre of the party, must fully understand the effective threat of peaceful evolution, keep sober-minded, and be able to stand the test of the struggle against peaceful evolution.

Second, criticizing bourgeois liberalization and the trend of thought advocating democratic socialism will be a long-term task. As early as 1985 Comrade Deng Xiaoping pointed out: "To carry out the four modernizations and implement the policy of opening to the outside world, we cannot allow bourgeois liberalization." Furthermore, he emphatically pointed out in 1986: "The struggle against bourgeois liberalization will go on for at least another 20 years." After the 1989 political turbulence, we criticized bourgeois liberalization and the trend of thought advocating democratic socialism, thereby improving the competence of all in the party and the nation for the Marxist theory and their ability to distinguish between right and wrong. In view of the present situation, the struggle in this regard is far from over. It is necessary to adhere to, and develop Marxism-Leninism and Mao Zedong Thought. It is necessary to do a better job of implementing Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics. An important task for the theoretical front is to persist in criticizing bourgeois liberalization and the trend of thought advocating democratic socialism as well as other erroneous, anti-Marxist trends of thought.

Third, the effort in the previous several years to educate party members and party-member leading cadres on the struggle against peaceful evolution was entirely necessary. Since the Fourth Plenum of the 13th CPC Central Committee, the CPC Central Committee, with Comrade Jiang Zemin at its core, has persisted in making economic construction the focus, and implemented the

party's basic line in a comprehensive way, producing great achievements in all areas of work. The struggle against peaceful evolution is an inseparable part of the work of implementing the party's basic line, and does not constitute "establishing another focus." As for the fact that some units, sectors, and comrades have failed to understand, or conduct propaganda on, the struggle against peaceful evolution in a sufficiently comprehensive manner, such problems can only be regarded as cognitive problems or problems in work, and should not be regarded as constituting "making class struggle the key link," much less "establishing another focus" to oppose the party's basic line. In fact, our improvement and rectification efforts and continuing reform efforts made in the previous several years provided good foundations for further accelerating reform and opening up and developing the economy. Our party's effort to do a good job of building the party itself and to base the party's work on managing well domestic affairs under the guidance of the theory of building socialism with Chinese characteristics is itself a project which provides the foundation for the work of resisting peaceful evolution. Now and in the future, on the one hand, we must never relax our vigilance against peaceful evolution, and especially, the party's high-level cadres should keep sober-minded, as demanded by the Central Committee. On the other hand, it is necessary to focus on working hard and to do more and say less, concentrating on developing the economy so as to increase our comprehensive national capabilities.

4. Freedom of the press is conditional; publications may not violate the constitution and the four cardinal principles.

This book contains an article that exclusively discusses the freedom of the press; the title of the article is "Freedom of the Press Does Not Belong Only to the Bourgeoisie." In my shallow view, the practice of discussing freedom of the press in general terms is not in accord with Marxist views. Our constitution stipulates that citizens have the right to freedom of speech and freedom of the press. But such freedoms are relative and conditional. It is not the case that as some people think, one may say whatever he wants to say, write whatever he wants to write, and do whatever he wants to do, without being subject to the limitations imposed by law and discipline. In this socialist country of ours, citizens have the freedoms of speech and of the press. But there is a precondition, that is, that they must observe the constitution, conform to the four cardinal principles, and contribute to developing a political situation characterized by unity and stability. Any speech or publication that violates the constitution and the four cardinal principles is illegal and should not be allowed.

If such is the case, then why have some publishing houses published in succession such books as *The Historical Trend*, *Memorandum on Preventing Problems of Leftism*, and *Leftism-Caused Disasters in China* that violate the four cardinal principles? Why have some people published articles that violate the four cardinal principles

again and again, basing their actions on the slogan of "freedom of speech?" Why have some pornographic publications been able to get openly and "freely" published, and not been suppressed despite repeated efforts? Why have some erroneous trends of thought been able to gain some market, instead of being criticized? Should the continual happening of such situations not cause us to think hard and arouse our attention?

In the ideological sphere, we must always keep a firm proletarian stand; only in this way will we be able to defend ourselves against, and overcome, the onslaught of bourgeois reactionary trends of thought. Here, the dictum, "the struggle is not over yet," is still pertinent.

Opening Up Allows Outside Enemy To Enter

93CM04304 Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese No 7,
11 Jul 93 pp 4-8

[Article by Wu Junqi: "Victory in the War To Resist U.S. Aggression and Aid Korea and Other Things"]

[Excerpt] [passage omitted] Has this task of national salvation and survival been accomplished after winning the War To Resist U.S. Aggression and Aid Korea? In terms of the fact that China has become an independent country, that task can be said to have been accomplished. But in terms of the fact that Western reactionary forces are now still pursuing the strategy of peaceful evolution in relation to China, the task can also be said to have not been accomplished. After the end of the War To Resist U.S. Aggression and Aid Korea, the Western powers followed the advice of Dulles, and carried out prolonged economic blockade against us, in an attempt to make our country collapse. Even after the establishment of diplomatic relations between China and the United States, they still refused to renounce the peaceful evolution strategy. They have carried out political, economic, cultural, and ideological infiltration, conducted espionage activities, and colluded with, and bought, some traitors in our country, using them as their agents operating inside China. They have even publicly declared that they do want peaceful evolution in China. As the latest statement in this regard, U.S. Secretary of State Christopher said last February: "We will try to use most-favored-nation as a means of ensuring good behavior on the part of China in many areas." This one sentence has fully exemplified the U.S. ruling clique's arrogance toward our country and the language that it uses to threaten us. They demand that we show "good behavior in many areas"; what if our behavior does not conform with their demand? How can we sit back and relax in such a threatening atmosphere?

The Central Committee of our party has sober understanding and appraisal of the issue of fighting peaceful evolution, and has resolutely safeguarded national independence and security in handling issues of foreign relations. People with common political knowledge in

society also see clearly the designs of Western reactionary forces. But it should be admitted that the tendency to see no trouble around and to lower one's guard also exists on a widespread basis in our society. For instance, articles on the awareness of dangers which have often been published in recent years mostly discuss the dark side of our society, such as corruption encompassing embezzlement, neglecting duties, and using power for reaping personal gain, but never mention the awareness of external dangers. Surely, our awareness of dangers should encompass the worry over domestic problems; and corruption is also a form of peaceful evolution, and is truly a most serious danger. But should the awareness of dangers not also encompass the awareness of external dangers? It is not bad to be worried over external dangers. People in ancient times said: "A state that does not have an enemy or external dangers will certainly perish." What is meant here is that it is necessary to have an awareness of external dangers. People in ancient times also said: "Think about dangers in time of peace," and "those who are not worried about future developments will meet trouble shortly." Such dangers and worries can also refer to external dangers. That is, only by trying to prevent problems before they occur and providing for a rainy day, will it be possible to avoid panicking in case of emergency. The effort to provide for a rainy day has not only a material aspect, but also a spiritual aspect. It is necessary not only to make cadres sober-minded, but also to make the masses vigilant. If the cadres and the masses at large have lowered their guard, then it is very clear what will happen when problems occur. Take another example. Some people now believe that it is necessary to welcome overseas guests by bowing to them and being extremely reverential to them, and that it is necessary to confide in those guests and to tell the guests everything. The ideological fence has been dismantled, and the vigilance against the enemy has gone. As a result, a few enemy agents have got into the country by mixing themselves with the good people who are the overwhelming majority. They use people or use material gains to lure people; or they trap people through playing tricks and then threaten those people in an effort to recruit them, so that those people can become their operatives. It seems as if the enemy agents have entered a no man's land; the agencies in charge of confidential work have a hard time dealing with the enemy agents, and big cases of giving away secrets happen again and again. There is an ideological relationship between the lack of an awareness of external dangers and the lack of vigilance against the enemy and between such lack of vigilance and giving away or selling the state's secrets. How can such a danger be eliminated without carrying out ideological work to resolve relevant problems?

The CPC Central Committee is now repeatedly emphasizing the need to develop the patriotic spirit; ideological education in this regard also includes education on "resisting foreign aggression." Comrade Jiang Zemin says: "In the history of China, patriotism has always been a flag used to mobilize and encourage people so that

they can unite and fight, is the common pillar for people of all nationalities, and has played an important role in safeguarding the motherland's unity and national unity, in resisting foreign aggression, and in promoting social progress. Inspired by the patriotic spirit, our country and nation seeks self-strengthening incessantly, and has strong cohesive power and vitality." However, in terms of propaganda and part of the educational work, ideological education on "resisting foreign aggression" has not been carried out in an unambiguous manner, or has not been carried out at all. A substantial number of youngsters believe that patriotism means loving the long history, splendid culture, hard-working and courageous people, and beautiful land of the motherland, and do not know that the modern history of China records one important fact: To love the country, it is necessary to save the country first; if the country is not saved, there would be no country to love. Patriotism is the doctrine of national salvation. Just 50 years ago, our motherland was still being trampled upon by Japanese imperialism, and faced the danger of national subjugation. The patriotism of that time meant to endeavour to liberate the motherland from the oppression of imperialism, to remove the "No Dog and Chinese" sign from the door of the Waitan Park in Shanghai, to end the crisis situation where "one cannot even find a quite place to study in such a large region as North China," and to ensure that people could lead a peaceful and stable life. Time and circumstances have changed, and the current situation is vastly different from that in the past. Nevertheless, as long as Western reactionary forces do not get rid of their aggressor nature and their peaceful evolution strategy, the proposition that patriotism is the doctrine of national salvation cannot be said to have lost its meaning. However, it is impossible for Western reactionary forces to get rid of their aggressor nature and refrain from promoting peaceful evolution. After the drastic changes in East Europe and the Soviet Union, the peaceful evolution effort will certainly target our country. One's patriotism will be empty if one does not understand this point. It seems that we have not yet come out of this historical tunnel.

Of course, in saying now that it is necessary to have an awareness of external dangers, we are only talking about some potential dangers. It is difficult to predict whether such potential dangers will become real dangers. It is not necessary to shout just because of some potential dangers, for shouting can deepen hostility and antagonism; thus, shouting really is a manifestation of political immaturity. In addition, we must open up to the outside world, and do business with Western capitalists, so as to promote our economic development. Since we want to do business with them, we should adopt an attitude of cooperation based on equality, because of either the need to be reasonable or the need to be polite. This is one side of the matter. In regard to the other side of the matter, as discussed above, if the cadres' and masses' ideological battle position becomes "undefended land," national security will be adversely affected; or even the effort to truly consolidate the peaceful external environment will also be adversely affected. There

is a conflict between the two sides of the matter, and it is not easy to handle the conflict properly. But we should strive to find a propaganda and education method and approach that can take care of both sides of the matter, or which at least does not totally neglect one side.

Finally, as should be pointed out, overcoming the tendency to worship foreign things and be slavish toward foreigners is the precondition for developing a patriotic spirit; and this issue should not be ignored. In the article "Dream in Paris," the author said through the mouth of a French police officer: "As history shows, you Chinese have always been having a nightmare relating to worshipping foreign things and being slavish toward foreigners; this is even worse than keeping the country closed. Because of this, you will never get all the Western things that you worship, and can even lose the best part of your tradition, history, and culture. Chinese youth now regard the West as a paradise, and are proud of being far away from China. This is very dreadful. Tagore said it very well: We do not borrow history from others." I believe that the ideas expressed in the two passages are basically correct except for the fact that not all Chinese are as described. The reason why it is not possible to get "all the Western things worshipped through worshipping foreign things and being slavish toward foreigners is that worshipping foreign things and being slavish toward foreigners will necessarily lead to losing human dignity, national dignity, or even national sovereignty. Some foreigners will harm you and trample upon you by exploiting your tendency to worship foreign things and be slavish toward foreigners. If the "three things are lost," the country will become a dependency, and the people will lose their freedom; in such a case, it is natural that the original objective of achieving self-strengthening by learning from the West will not be accomplished. Worshipping foreign things and being slavish toward foreigners will inevitably result in China's fine traditional culture being trampled upon. Western capitalists never give people money for charity reasons, but rather try to turn one dollar into several dollars. Worshiping foreign things and being slavish toward foreigners will not change this iron law of capitalist society. Thus, the attempt to make one's own country rich and powerful through worshipping foreign things and being slavish toward foreigners will ultimately turn into a nightmare or remain a vain hope. Some individuals may get rich through worshiping foreign things and being slavish toward foreigners, as the compradores in the old society did. But in getting rich in this way, those people are just getting some leftovers which are part of the blood and sweat that foreigners have extracted from their compatriots, and they are still in fact making money off their compatriots. Expressed in the Chinese language, the remark made by Tagore means that it is necessary to be self-reliant, and to create one's own history, present, and future with one's own power. There is no need to borrow from Tagore. Our party has articulated such an idea many times. Regrettably, some people have forgotten that idea. Now, it is necessary to emphasize the idea of self-reliance when propagating a patriotic spirit.

NATIONAL AFFAIRS, POLICY

State Enterprises Still Carry Excessive Burdens

93CE06204 Beijing JINGJI GONGZUO TONGXUN [ECONOMIC WORK NEWSLETTER] in Chinese No 9, 15 May 93 pp 12-15

[Article by Ren Junting (0117 0193 0080), director of the No 3 Woolen Mill in Lanzhou: "My View of the Excessive Burdens Still Carried by Large- and Medium-Sized State Enterprises"]

[Text] While the matter of lightening the excessive burdens carried by large- and medium-sized state enterprises has been under discussion for the 15 years since the Third Plenary Session of the 11th CPC Central Committee, it has still not been basically resolved. Why has this matter become such a "serious and longstanding one?" I would like to present my personal views on the matter.

I. Large- and Medium-Sized State Enterprises Still Carry Excessive Burdens

Most state enterprises are like beasts of burden, still staggered by overload.

A. The Nonproduction Burden Is Excessive. Because China has long been under the impact of no separation between either the party and government or government administration and business management, all large- and medium-sized state enterprises are burdened with many state missions. In addition to political and cultural duties, they are also burdened with a host of interim and apportionment tasks. In particular, enterprises now have the mission of building spiritual civilization in areas such as politics and ideology, along with the task of earning more profits to meet revenue payments to the state. The mission of ensuring employment and stabilizing livelihoods, in addition to the duty of guaranteeing all social welfare benefits to their employees; and the mission of urban construction to promote local economic prosperity, along with the job of maintaining social stability by finding jobs for their employees' children. In other words, from economics to politics, material to spiritual, and society to the family, there is almost nothing that enterprises are not contracted to handle. Enterprises now perform not only government but also social affairs, making us really an "enterprise society." This method of setting too many aims for enterprises and making them run our society, which violates not only the principle of the social division of labor, but also economic work laws, is one of the reasons why enterprise burdens are excessive. For instance, my mill was instructed by administrative units at all levels to organize our employees to take part in no less than 20 kinds of nonproduction-related "knowledge contests," such as an "insurance-knowledge contest," a "safety-knowledge contest," and a "law-dissemination knowledge contest," as well as competitions in party history, communications, public security, and energy resources. If an enterprises does not participate in a certain field of

knowledge contest, its work in that field will not be accepted, and its "spiritual unit's" brand is subject to a "one-vote veto." A sizeable part of these "knowledge contests" require either enterprise participation, or being branded for neglecting a certain field of work. This leaves enterprise leaders at a loss as to whether to laugh or cry.

B. The Tax Burden Is Excessive. 1) Tax policy is too variable and unfathomable. In the early 1980s, while the Ministry of Finance stipulated that over 85 percent of enterprise net income was to be collected by state revenue, and put into effect a policy of "the substitution of taxes for profits," this did not work, forcing it to go to the contract system. Later the state steadily increased tax categories and raised tax rates, raising the ratio of enterprise circulation taxes to overall profits and taxes from 39.5 percent in 1983 to 80 percent by 1990, and lowering enterprise net retained profits from 14.8 percent to 8.9 percent. The state is now pursuing a policy of "separating profits from taxes, with aftertax contracting and loan repayment." If this policy remains based simply on more state revenue, it will be hard for enterprises to maintain even simple reproduction. 2) Tax rates vary and tax burdens are excessive. State enterprises pay taxes of 55 percent, reaching as high as 70 percent with regulatory taxes; collective enterprises are subject to an eight-grade progressive tax to a maximum of 55 percent; once the three kinds of foreign trade enterprises go into operation, they enjoy the preferential policy of "two exemptions and three reductions," giving them a real tax rate of 33 percent. Tax rates are 24 percent in state development zones and 15 percent in SEZ's; township enterprises also enjoy the preferences of "two exemptions and three reductions"; and the private enterprise tax rate is only 35 percent. A 1989 survey by the State Council General Office of the retained profits of large- and medium-sized state enterprises found that 10.2 percent went to repay loans, leaving the ratio of enterprise net income to real retained profits at only 8.2 percent. When this is added to the various soft and hard apportionments and arbitrary penalties, enterprise real retained profits are very few indeed. A survey by the pertinent State Council department shows that only 0.2 yuan of every 100 yuan of enterprise retained profits goes to maintain simple reproduction. According to 1990 State Administration of Taxation statistics, the real burden of income taxes for all categories of enterprises in China is 40.98 percent for state enterprises, 27.24 percent for collective enterprises, and 13.23 percent for the three kinds of foreign trade enterprises. In other words, the three kinds of foreign trade enterprises pay less than one-third the income taxes of large and medium-sized state enterprises. According to the 55-percent stipulation for 1992, my mill should have paid income taxes of 5.4 million yuan, which if calculated according to the specification of 33 percent for the three kinds of foreign trade enterprises, would have been only 4.637 million yuan. In addition, the policy of energy, transportation, priority construction, and extrabudgetary regulatory funds that cost my mill 1.446 million yuan in 1992 was nonexistent

for the three kinds of foreign trade enterprises. This unequal tax structure, which takes more from large- and medium-sized state enterprises, artificially creating unfair competition among all types of enterprises, is one of the key reasons why large- and medium-sized state enterprises lack vitality, are overburdened, and find it very hard to adapt to the impact of domestic and foreign markets. Taking the Lanzhou No 3 Woolen Mill as an example, in 1992 we paid the state profits and taxes amounting to 25.45 million yuan, while retaining profits of only a little over 5.654 million yuan, of which 3 million yuan went to loan payments and 1.4125 million yuan to welfare funds, leaving only a very little that could be really used for production development, or only a little over 1 million yuan in 1991.

C. The Apportionment Burden Is Excessive. In addition to the tax burden, enterprises' biggest headaches are all sorts of soft and hard apportionments and arbitrary penalties and charges. Enterprises are now subject to as many as 60 charges by various public sectors. With motor vehicles for instance, there are some 20 fees, such as traffic-regulation violation fines, parking fees, pollution charges, transportation costs, bridge tolls, and support funds. During the "silk road festival," a permit for a single small sedan cost 30 yuan. The road from Lanzhou to Wenzhou of only a little over 2,000 km averages an inspection station every 50 km, so that a round trip by car costs thousands of yuan. Even though the driver of a car has already paid a long-distance road-maintenance toll, every zone-crossing still requires a large "road-building toll." Moreover, there are fines for both moving and nonmoving violations, reaching as high as 800 yuan a violation in some places. In addition, all sectors make many apportionments, with my mill being apportioned as much as hundreds of thousands of yuan by concerned units in recent years for charges, such as capital construction fees, vehicle maintenance charges, conference fees, mess charges, travel costs, and support charges. Many meetings that are the responsibility of the authorities are devolved to enterprises to hold, many meetings that should be attended by the authorities are attended by forced enterprise substitutes, and many fees that should be paid by the authorities are shared out to enterprise responsibility. In addition, our society has all sorts of "soft apportionments" in areas such as culture, propaganda, support, and entertainment, making it hard for enterprises to hold their own.

D. The Social Burden Is Excessive. Large- and medium-sized state enterprises have an exceptionally widespread problem of social duties in that, in addition to completing their production tasks, are also charged with missions such as employee housing, health care, education, entertainment, childbearing, jobs for children, schools, labor insurance, personal insurance, safety, and livelihood welfare. In short, enterprises are responsible for everything from food, clothing, housing, and transportation to childbirth, ageing, illness, and death, the handling of which require enterprises to set up organs and facilities for the whole set of employee

social services, such as hospitals, public schools, kindergartens, breast-feeding rooms, car fleets, bathhouses, clubs, people's police teams, boiled water rooms, TV rooms, aged-cadre activity rooms, and liquified gas stations. Every year requires over 1 million yuan for employee hospital building depreciation and medical care facilities; spending 450,000 yuan for children's schools and kindergartens, plus 555,000 yuan for equipment depreciation and maintenance; over 1 million yuan for employee housing construction; 732,000 yuan for depreciation and maintenance; about 200,000 yuan for employee single-child expenses and family planning fees; over 1 million yuan for livelihood welfare costs; and more than 1.9 million yuan for other costs, such as transportation, entertainment, culture, insurance, security, food and drink, and heating. Over 80 percent of current enterprise nonproduction personnel are in the above category of social welfare workers. For instance, my mill has only a little over 50 public security personnel. In recent years, my enterprise has also set up a comprehensive administration office and a tobacco-abstinence clinic, as well as increasing the number of security and guard personnel in our employee-dependents' quarters. Just as some factory directors say, the enterprise factory directors have really become "mayors" in that, except for not being responsible for running crematories, they are responsible for everything else, our enterprises are still subject to ever-increasing restraints. Enterprises are now subject to an indeterminate number of bosses who do not come in unless they have some interests, with everyone from the central committee to neighborhood committees being enterprise immediate superiors. So enterprise factory directors have to burn incense at everyone's temple and kowtow to all spirits, fearing only that they might offend some saint.

So these economic, political, and spiritual burdens, plus social ones, such as mountains of documents and seas of meetings, appraisals and inspections, checks and audits, visits and studies, interviews and tests, and intercessions and visits, have enterprise factory directors in even more of a stew. No wonder so many factory directors are now considering resigning, which is in fact set off by their desire to escape all sorts of truly unbearable excessive burdens.

II. The Severe Impact on Large- and Medium-Sized State Enterprises of These Excessive Burdens

China now has over 4.6 million enterprises of all types, of which about 40 percent are state-owned, with more than 12,000 being large- and medium-sized state enterprises. These more than 10,000 large- and medium-sized state enterprises account for approximately 67.4 percent of all enterprise fixed assets, 54.9 percent of gross value of industrial output, and 61.1 percent of realized profits, making them the key force in our socialist national economy. But the excessive burdens carried by most large- and medium-sized state enterprises leave most of them severely lacking in vitality and without might in the midst of sharp domestic and foreign market competition.

A. Enterprise Development Lacks Strength

Because large- and medium-sized state enterprises are overburdened, they lack the needed strength for development. Almost all large- and medium-sized state enterprises are older ones that were established in the fifties and sixties, having outdated equipment, backward technology, and a very low level of production modernization. Relevant statistics show that about 30 percent of the current equipment of large- and medium-sized state enterprises is beyond the depreciation-years limit, with over 90 percent in the category of nonmodernized equipment. In our textiles industry for instance, one-third of the equipment is obsolete, with less than 10 percent being advanced equipment of the eighties. Equipment and technology are so outdated, China's per-ton-fiber manufactured value is only one-third that of the United States and one-fifth that of Japan. Our export product prices for similar categories are only one-tenth or even one-twentieth that of developed countries. Even worse, as it does not have the might to upgrade its equipment, our textile industry's extensive operations of primary manufacturing, low level, and resource-oriented still continue, with many enterprises lacking the strength to invest in technological upgrading for many years, and some even have trouble maintaining simple reproduction. While the Lanzhou Woolen Mill No 3 is a comparatively new enterprise built in the 1970s, its equipment and technology are still relatively backward. From 1986 to the present, while we have done our utmost by investing over 100 million yuan to upgrade our enterprise technology, this has been only a drop in the bucket in relation to our needs, as many of our production lines still in use are obsolete equipment. Our preliminary projections are that to completely upgrade our existing weaving equipment, we would have to spend at least 10 million yuan a year for over four decades, and technological upgrading would be essentially impossible for an enterprise carrying such excessive burdens.

B. The Lack of Vigor in Operating Forces

The overcontrol of enterprises by the state leaves most of them uncompetitive abroad, without motivation at home, and existing without vitality. For instance, enterprise staffing and hiring authority and payrolls are strictly controlled by the state, so that they cannot hire or fire as needed, and those that do more and better or less and worse all eat out of the same "big pot" payroll provided to enterprises by the state. This has continued to the point where enterprises have developed deep-rooted iron wages, iron armchairs, and iron ricebowls. This, in addition to the state policy of "taking more from the best" and propping up "the worst," has created the abnormal order of profitmaking being inferior to sustaining losses, paying more to the state not being as good as paying less, and efficient enterprises not getting along as well as inefficient ones. For instance, in 1992, while the Lanzhou Woolen Mill No 3 ranked in the foremost in the industry as to profit and tax payments to the state, our per employee wage income averaged only 3,008 yuan, and our per capita welfare spending averaged only

65 yuan. But in enterprises in our industry that sustained huge losses, per capita annual wages were much higher than ours, while per capita welfare spending was also higher. With such unjust state policies, how could enterprises be expected to raise their efficiency?

C. The Lack of Competitiveness in a Market Economy

Due to their lack of vitality, large- and medium-sized state enterprises have seen their economic efficiency continue to decline in recent years. In 1991, budgeted state enterprises throughout China saw a 30 percent rise in losses to 31.1 billion yuan, which real and potential losses continued to grow in 1992. A State Statistical Bureau analysis for the first quarter of 1993 shows that profitmaking enterprises still make up only one-third, with one-third sustaining real losses, and the other one-third potential ones. In our national textile industry, these losses are even worse. Since 1988, our national textile industry has seen a sharp, sustained five-year decline in economic efficiency. In 1992, of our 29 provinces, municipalities, and autonomous regions throughout China, 45.9 percent of the whole industry sustained losses in 18. In the first quarter of 1993, in our 39 large- and medium-sized cities throughout China, profits were down 135 million yuan from 1991, with 44.08 percent of enterprises sustaining losses amounting to 313 million yuan. Of Gansu Province's 15 directly administered light textile industry enterprises, only four or five are really making any profits, with all of the rest sustaining losses amounting to tens of millions of yuan, and a few already on the verge of bankruptcy. Such a situation is unprecedented in our history.

With such heavy burdens and severe losses, not to speak of any international market competitiveness, these enterprises are simply waiting with tied hands for their demise even on domestic markets. Unless these two matters are resolved, it will be very hard for enterprises to continue to exist.

III. The Causes of the Excessive Burdens Carried by Large- and Medium-Sized State Enterprises

While the causes of the excessive burdens carried by large- and medium-sized state enterprises are diverse, I believe that the major ones are the following four.

A. The System Is Out of Order. It is precisely because China's large and medium-sized enterprises have been state-owned for so long that our public property restraint forces, whether in the property ownership system or for managers, operators, or producers, are all so obviously weak. In other words, their property ownership is unclear. According to our traditional state property management system, enterprises have neither dominant property rights or major interests, being subject simply to state interests. Such an ownership system means that the state, collectives, and individuals can all make unrestricted demands on enterprises, creating the strange phenomenon of all living off of them. To resolve the matter of excessive enterprise burdens, it will be necessary to start with the ownership system, by delimiting

property rights relations and separating enterprise ownership from operating authority to give enterprises full operating rights, while the state manages only the two tasks of enterprise state property proliferation and collection of profits and taxes, but nothing else. This will provide the only possibility of lightening excessive enterprise burdens.

The matter of the system being out of order also shows up in the lack of separation of business management from government administration. Many matters that ought to be handled by the government and society are now put on enterprises, increasing enterprise burdens. So a resolution of the excessive enterprise burden problem will require first putting our property rights and administrative systems in order.

B. There Are Too Many "Mother-in-Laws." Too many enterprise leaders is another key factor in the excessive burdens carried by enterprises. There are now too many business-management departments and personnel with, in addition to the responsible departments, all other enterprise work being under the direct leadership of counterpart units, which interfere at every level, and all emphasize the importance of their respective jurisdictions. Enterprises can be compared to "chicken coops," with dozens of sticks "stirring things up" in the coops, which is likely to kill the chickens, not to speak of giving them any vitality. I hold that the government ought to take charge of proper government affairs, not interfering in particular enterprise matters. It should practice the "five managements and five no controls:" 1) The enterprise environment should be managed externally and not control internal affairs. 2) Enterprise operations should manage orientations but not control affairs. 3) Enterprise staffing should manage as a teacher but not control as a general. 4) Enterprise distribution should manage payments but not control wages. 5) Enterprise fate should manage with vitality but not overcontrol. It would be best for all large- and medium-sized state enterprises to not have responsible departments.

C. Policies Are Unfair. China's current enterprise tax payments are 28 percent higher than those in Japan, and also much higher than those in certain developed countries. Enterprises pay almost all of their profits in one form or another to the state or to society, which method of killing the goose to get the eggs directly affects enterprise development. According to the Marxist stand, profit is the dominant motivation that drives enterprises to produce and develop. It is only when enterprises earn profits that the state can acquire them. If individuals have no profits, enterprises cannot benefit. Thus, we need to store up wealth in enterprises and the people. It is only when the people are wealthy that the state can be strong. Western capitalist economies grew so fast after World War I because they adjusted certain links of capitalist production relations, and changed the method of putting unlimited squeeze on workers. The Japanese say that their economic takeoff was based on individual income multiplying. In the United States every economic recession brought lowered tax rates to reduce

production [as published], which increased worker income, a method that resulted not only in a steady improvement of living standards, but also in capitalists making money and the state becoming wealthier. Capital Steel's vitality is due to the "light tax" policy of "rigid bases, guaranteed progressive payment increases, complete retention of overages, and making up shortfalls," as well as definite set contract terms of 15 years without change. Capital Steel's ratio of retained profits to profit and tax payments is 43.5 percent, while retained profits in China's other enterprises do not generally exceed 10 percent. Our tax policy is unjust, with other policies in areas such as contracts, wages, credit, technological upgrading, import-export, and joint ventures, all containing many unfair terms, which is another key factor in the excessive burdens carried by large- and medium-sized state enterprises and their unfair competition with other enterprises.

D. Management Authority Has Not Been Devolved. In implementing the "Enterprise Law" for instance, most of the 13 management rights devolved to enterprises by the state have actually not been implemented. The state has again published "Regulations," and provinces have also put into effect the enforcement of "Regulations" and certain other preferential policies, most of which have been hard to implement. The major obstruction is coming from responsible government departments at all levels, which hang onto power and refuse to give it up. For instance, in enterprise mergers, current system restraints make for too much local government interference, with enterprise mergers subject to strict examination and approval by upper-level concerned departments, which sometimes even set up obstacles in their own interests, making enterprise mergers hard to achieve. In March 1993, we signed an agreement with the Gansu Textile Research Institute for a closely joined and jointly organized "Gansu Woolen Group Corporation," which was eventually broken up due to obstruction by many parties. That enterprise alliances are destroyed before government organs are reformed is certainly thought-provoking. As to personnel hiring rights, enterprises actually are also unable to operate independently. Enterprises not only have no right to reject state directive plan labor hiring distribution targets, but also cannot solicit and choose the capable or fire employees at will. As to the right to reject apportionments, enterprises actually are even less capable of doing so now as, if they take a stand and refuse all arbitrary fines and apportionments, they will find no way to advance an inch or even continue to exist.

In short, the matter of the excessive burdens carried by large and mid-size state enterprises is a fundamental problem of the socialist system in urgent need of a solution. Lightening enterprise burdens will also be a systematic project involving all aspects of society. In particular, as the state macroeconomic system has not yet undergone a basic change, and government functions have still not been converted, lightening the excessive burdens carried by large and mid-size state enterprises

will be impossible to achieve fully. But under the pressure of sharp international economic competition, allowing large and mid-size state enterprises to continue to bear such a heavy burden while fighting on a decisive life-and-death economic battlefield, will not only result in our enterprises being beaten, but will also have a direct impact on our national economic development.

FINANCE, BANKING

XIAOFEI SHIBAO Reports Financial Crimes

93CE07654 Beijing XIAOFEI SHIBAO in Chinese
5 Jul 93 p 4

[Article by Yang Hongbin (2799 4767 1755), Zhang Qingmin (1728 1987 3046), and Wang Zhongxiao (3769 1813 1321); "Record of Financial Crime Concerns"]

[Text] Shakespeare said that money is something that can change and ignite everything. Through the ages, it has had a huge real attraction for everyone. But for financial workers situated in a sea of money, the fascination and allure of money is more direct and stronger.

The Blue Files

In recent years, with the development of China's commodity economy, banks—an industry specializing in managing currency and raising funds have become more and more dissatisfied. Some weak-willed "inside thieves" wear a false mask, are unable to withstand the colorful enticements, and the frequently surging sky-high waves and apply a mysterious coat of color to the finance industry called a "safety island."

According to statistics from the main office of the People's Bank, from 1988 through 1990, China's financial system accumulated more than 15,000 cases of various types of economic crimes and illegal money exceeded 900 million yuan, and involved more than 17,000 people, greatly exceeding the total financial system crimes since the founding of the PRC.

This definitely is not exaggerating things to frighten people. The authors have some data on hand which is quoted below:

Of the 16.8 million yuan in funds involved in the bribery cases recorded and investigated by Nei Mongol procuratorial organs, 9 million yuan, 58.4 percent of the total, were funds pertaining to the financial system.

In 1990 the Wuhan municipal financial system investigated and prosecuted 16 cases of various types involving 21 people, and the funds exceeded 7.8 million yuan.

In 1991 the Shanxi Province financial system uncovered a total of 169 cases of various types of economic crimes, a more than 200 percent increase over the previous year. What concerns people is: there were 121 cases involving

10,000 yuan or more, 20 major cases involving 100,000 to 1 million yuan, and five especially big cases involving more than 1 million yuan.

Procuratorial organs discovered that in a certain Hubei Province industrial and commercial office with fewer than 20 employees, 12 were involved in economic crimes and the amount exceeded 800,000 yuan.

In the People's Bank in a certain county in Guangdong Province, criminal elements without scruple embezzled half of the annual net profits of the county banking system.

If we were to enumerate the great achievements of large and small "house thieves," we would simply need a reference book as large as an almanac. Actually, crimes in the financial area, whether in number or amount, far exceed what was described above. Although these intellectual crimes are not as earthshaking as foreign murder cases, there is no way to calculate the huge economic loss that they create for the country.

Computer Murderers

At dusk one day in July 1991, the glittering and bustling metropolis of Guangzhou seemed to momentarily lose its composure, and under the veil of darkness, a mysterious person suddenly rushed into the U.S. Consulate and fabricated a reason to seek political asylum. After he was refused, he disappeared in the vast darkness.

News of the unsuccessful traitorous escape case rapidly reached the Guangdong state security organ. Not daring to neglect it, they immediately put out an arrest order and spread a wide net to airports, ports, bus stations, and travel agencies.

When the mysterious person discovered that he was caught in an impenetrable net, he fantasized that the only way to destroy it was to surrender to the public security organ.

The traitorous escapee after all was Li X X, the director of an office in the industrial and commercial bank of XX city in Henan Province. From 1986 through 1991, he used his authority to fabricate 20 time deposit accounts and alter computerized savings data with a microcomputer. There were more than 40 cases and the amount of the crime exceeded 334,165 yuan. After the fact, the criminal Li, fearing legal sanctions, absconded with the funds and fled south, attempting to flee the country through Guangzhou. This financial moth ultimately fell into the "procedure" that he himself had arranged.

The computer, symbol of the third technological revolution, more and more often infiltrates financial practice. When people strike the white keyboard, pair after pair of black hands smartly extend into this mysterious, profuse world, to do as they please. Sadly, they become very powerful "accomplices" to criminal elements in "stealing" bank funds!

According to incomplete statistics, in recent years, throughout the country scores of computer swindles have occurred one after the other. The amount is large and the methods are getting more and more abominable.

Golden Dreams

Zhang X X, a teller in a certain branch company, one year when he was only 23 years old, a lad who was pleased with himself in the spring of life, perhaps because for a long time he was in contact with bank notes, perhaps he was corrupted by "putting money above everything else," generally felt that something was lacking in life. Every day when he saw the "commotion" of the bills going by, it caused an unstoppable itch in his mind. Money became an unstoppable force, like a runaway train.

After the dam broke, the tidal waters were loosed.

On 16 January 1991, Zhang X X, in a "get rich dream," began to carry out his criminal plan. At 1230, his colleagues one after another left the office, and only Zhang remained on duty. With this heaven-sent opportunity, Zhang could not resist using the key that he had made to open the safe. With the piles and piles of bills spread before his face, his eyes were covetous and his heart pounded. He could not think of anything else. Morality and law were all cast beyond the highest heavens. Later, he fled on a northbound train.

This world is very, very large and very, very small. No wild beast's tracks can escape the sharp eyes of the hunter.

On 31 January 1991, "Bang!" Zhang X X fell with the sound of a righteous rifle and did not climb up again.

Yet, the tragedy of Zhang X X's digging his own grave has by no means awakened some money crazed "golden millet dreamers." There are plenty of people out "to make a killing."

A Merciful "God"

Everyone knows that when Adam and Eve ate the forbidden fruit, they were chased out of the Garden of Eden by God. But when we review current crimes in the financial sphere, it is not difficult for us to discover that God's kindness, indulgence, and tolerance are an important root cause of financial crimes.

A certain cashier Tang is an out and out gambler. Gambling is a second occupation for him. In one round of gambling, he did not hesitate to defy the law. He lost the whole [company] deposit of 330,000 yuan. 330,000 yuan is enough to be beheaded! The public security organ responded rapidly, confiscated the stakes, and seized each of the gamblers for execution. The perplexing thing was that Tang's unit engaged in a rapid and intense clamor of rescue activity: Tang is still young and is a mainstay worker and indispensable . . . etc., etc. Such an absurd explanation. Finally, Tang was released on bail. August law and the banking regulation system became

wall decoration. The criminal element openly passes through the emperor's hall into the inner chamber! Sorrow for God and sorrow for the law!

Facts prove that the leading cadres of some financial departments would rather exaggerate good accomplishments and report good news but not report concerns. As regards violations of the law, they cover up what they can cover up, hide what they can hide, make large matters small and small matters disappear, and help tyrants do evil. As a result, criminal cases pile up endlessly. This problem has reached the stage that it must be corrected.

Financial crimes are a heavy cross!

Experts Air Views on Tax Reform

Enterprise Taxes

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in Chinese 10 Jun 93 p 3

[Article by Gu Zijie (6253 1807 2638): "Enterprises and Taxation in a Market Economy"]

[Text] The author received his PhD degree from the Chinese Academy of Social Sciences and is employed by the Shenzhen Bureau of Taxation; his major publications include "Economics of Taxation," "On Taxation," "Taxation Pertaining To Foreign Nationals and International Taxation," and "Difficult Choices for the Economically Great Nations."

In a market economy, whether enterprises can develop on their own and whether they can flourish and grow are determined entirely by two factors: One, whether they have a good, comfortable external environment, and two, whether they have autonomous, highly efficient internal operating mechanisms. Neither factor is dispensable.

Taxation is an important measure that helps to create enterprises' external environment; its usefulness is realized by its ability to coordinate and constrain enterprises' economic activities and behavior according to the objective needs of commodity production and the common principles of social-economic processes. Given the conditions of a market economy, to a large extent, the external environment where enterprises can engage in fair, equitable, and equal competition must be created and safeguarded by tax policies. To a certain extent, the crises and obstacles in the market can be eased or overcome by adjusting the tax policy or tax system. Thus, taxation plays a very important role in creating enterprises' external environment. This means when we draw up the tax system or readjust the tax policy, we must make the objective needs of social-economic development and the law of development of the market economy the basic criteria and not let human desire dictate the terms, so that taxation is fair and equitable. For this reason, we should:

Formulate a unified, orderly tax system and tax policy to prevent the tax system from becoming decentralized and the tax collection process from becoming chaotic. Take enterprises' production management activities for instance. Their goal is to raise enterprises' level of profitability and competitiveness. Taxation is a means of allocating enterprise profits (surplus value of commodities.) Whether the tax systems and policies are unified will directly determine whether enterprises have the necessary conditions to carry out their production management activities. If enterprises do not receive the same tax treatment, some will have more of their profit turned into taxes and others will have less of their profit allocated to taxation, and as a result, taxation will interfere with enterprises' profit-making opportunities, and they will develop different relationships with the state depending on their tax burdens, and instead of depending on their own efforts for survival and development, some will depend on the state's favor or the government's partiality. This not only damages the relationship between the state and enterprises but also hurts the relationship among enterprises themselves and in turn directly jeopardizes the economy's healthy development.

Implement a fair and equitable tax system and tax policy, so that social-economic development will not be hurt by unfair taxation: The most basic goal in taxing enterprises is to secure an external environment where enterprises can carry out their normal production and management activities. This means when the government contemplates changing the tax system and the tax policy, it must do its best to make all enterprises compete under the same or similar conditions, so that taxes are a factor of equal quality and quantity (relative quantity) to be deducted by all enterprises engaging in production management.

To a commodity producer, fair and equitable taxation is manifested mainly in fair and equitable tax burden. Only if the tax burden is fair and equitable can resources be allocated in the most optimal way according to the natural law of survival of the fittest, and only then can the economy develop in the most efficient way. The mark of fair and equitable taxation is when different taxpayers are assigned different tax burdens corresponding to their different tax-paying abilities. Tax-paying ability refers to the taxpayers' ability to pay taxes (including real ability and potential ability.) This ability is gauged by the taxpayers' income, assets, and other relevant revenues. Tax burden is marked by the different ways and means a taxpayer pays his or her taxes. This may or may not coincide with the taxpayer's real ability to pay. The ideal situation is where the taxpayer's ability to pay actually matches his or her tax burden, in quantity and in magnitude.

The implication of fair and equitable taxation is essentially different from the kind of fairness and equitability pursued under the egalitarian concept. It is a kind of fairness that recognizes that things are different based on different capacity and ability to contribute. The kind of

fair tax burden enterprises need to compete on equal footing must meet the following criteria: One, all enterprises and other production managers capable of paying taxes must pay taxes; two, enterprises and producers with equal ability to pay should pay the same tax or have the same tax obligations; three, enterprises and producers with different abilities to pay should pay more or less taxes depending on their different abilities.

The meaning of a production manager's ability to pay is very broad. Monetary income should not be the only criterion in gauging one's ability to pay. Given the conditions of a commodity economy, the income of a production manager includes not only tangible income but also intangible income in the form of differential (land) rent. Given an amount of monetary income, some enterprises can earn that amount faster because they have better production conditions (good transportation, easy access, close proximity to the market and so on,) while others have a more difficult time earning the same income because of less desirable conditions. Therefore, what generates the intangible income should also be a basis for determining a taxpayer's ability to pay and his or her tax burden.

Harmonize the tax allocation relationship between enterprises and the state by setting a reasonable tax burden standard: It is not sufficient to rely on fair tax burden alone to promote economic development and stimulate effective competition among enterprises. We need to make taxation reasonable. All along, people have equated fair tax burden with reasonable taxation. But this is not so. Fairness and reasonableness belong in separate domains and are different concepts. Generally speaking, fairness refers to equality in terms of actual payment and ability to pay; it implies universal, equitable taxes. Reasonable taxation refers to that level of taxation which satisfies a specific social-economic standard, which facilitates the smooth process of reproduction and the government's performance of its public functions, and which coincides with the taxpayer's ability to pay—no more and no less. Furthermore, reasonable taxation refers to reasonable amount of total taxation and reasonable tax structure. In other words, while total tax revenues should be reasonable, the tax components should also be reasonable, that is, the taxes collected from each department, each enterprise, and each taxpayer should be reasonable. At the same time, what is reasonable taxation should be determined by the taxpayers' economic capabilities and their rights, privileges, and obligations in society.

In short, reasonable taxation reflects enterprises' most basic production management needs; it is the foundation that guarantees the effective maintenance of enterprises' external environment, and it is a necessary condition if the state is to perform its public functions effectively.

Avoid imposing redundant taxes on enterprises by determining a proper scope for each tax category. The scope of every tax category should be determined based on actual conditions. It is difficult to decide on the proper scope

based merely on conceptual understanding. Each tax category has its own critical point, and its sphere of action is limited. It will be wrong to extend one or a handful of tax categories to all or most economic activities and economic phenomena. Therefore, the collection and regulation of several tax categories at several links would necessarily require the determination of the proper scope of application and the critical point of effectiveness for each category. For example, when levying circulation tax, should it be based on the number of times a product circulates or on the amount of value added in the circulation process? Should the tax be imposed on the final product or all products (including intermediate goods)? The outcome will differ depending on the answers to the above questions. If the scope of application of circulation tax is unclear, it will affect the taxpayer's profit and will affect enterprises' production management activities. As another example, if we impose an income tax on enterprise profit and also tax the after-tax dividends and interests, we will in fact be taxing the same income twice, and taxpayers of course will try to find ways to avoid paying. Therefore, we must avoid overlapping the tax scopes or imposing redundant taxes to protect enterprises' normal economic interest and make sure that production management activities can be carried out successfully.

Observe International Practice

93EC742B Beijing ZHONGGUO SHUIWU BAO
in Chinese 14 Jun 93 p 3

[Article by Hu Zhongliu (5170 0022 3177): "Follow International Practice, Integrate China's Own Conditions, and Restructure the Existing Tax System"]

[Text] The author is a professor at Central Cadre Academy of Financial Administration, president of the Chinese Society of Taxation, and recipient of special government subsidies. His major works include "On Taxation" and "State Taxes." He has published several newspaper articles; one of which, "On the Characteristics of Taxation in the Initial Stage of Socialism," published in 1988, received a first-class award from the Chinese Society of Taxation and was included in "Compilation of 10 Years of Outstanding Writings on Taxation."

Developing a socialist market economic system and resuming our place in the GATT are two major economic events in China today and for sometime to come. During this period of dramatic changes, obviously much of what is in the tax system established under the traditional system can no longer meet the needs of the new economic format. We must drastically restructure the tax system. Here we will discuss China's tax reform from the standpoint of international practices.

What are considered international tax practices? In my opinion, we should abide by international conventions in the following matters:

The principle of levying the same tax on the same objects of taxation:

According to international practice, there is usually only one kind of tax—income tax—imposed on the profit generated by enterprises engaged in production management. But China's existing tax system sets up different tax categories according to economic components and types of business. For example, there are five different kinds of enterprise income taxes and several bonus taxes. The defects of such system are:

The existing tax rate differences have created a phenomenon of tax discrimination where the tax burden gets heavier depending on whether the enterprise is foreign-owned, individual-owned, collective, or state-run, in that order. This kind of unfair tax burden undermines the construction and development of the socialist market economy that gives play to fair competition. The state-owned economy is the most important part of the national economy and is the state's main source of revenues; it should be given preferential treatment. But our tax system is in fact "harsh on public-owned and easy on private-owned enterprises" and is going in the wrong direction. It not only undermines our effort to enliven the state-owned economy and to ensure the public-ownership system's dominant role in the national economy but it also hinders our efforts to change the state-owned enterprises' management mechanisms to encourage market competition.

Under a planned economic system, because of the failure to separate government and enterprises, and because state-owned enterprises were regarded as the state's "direct descendants" and were given all kinds of economic and financial favors by the "loving father," there were all kinds of random tax reductions and exemptions and indiscriminate favors. When other types of enterprises also fought for the same favors, it gave rise to a very abnormal phenomenon of "high tax rate, many tax breaks, narrow tax base, and light tax burden." The legal tax rate really had nothing to do with the real tax burden.

For this reason, we must promptly put an end to the practice of setting up tax categories according to economic components. With this in mind, the state's tax authorities have suggested combining the different types of enterprise bonus taxes into a unified enterprise wage regulation tax. At the same time, they have drafted a preliminary program to restructure the income tax system for Chinese-owned enterprises, with the intention of merging that with foreign-funded enterprises' and foreign-owned enterprises' income taxes later to create a unified income tax system that does not discriminate based on nationality. In this regard, the Shenzhen Tax Bureau has set a successful example. It is our opinion that it is practical and feasible for us to seize the present opportunity to implement a uniform income tax system for Chinese- and foreign-owned enterprises. Because the systems are basically similar in substance and because it does not deviate from the original principle in the "Income Tax Law for Foreign-Funded Enterprises and

Foreign-Owned Enterprises" promulgated by the Seventh National People's Congress, implementing a unified income tax this way will save time by avoiding a redundant legislative process if we were to install the system in two steps, and we will also be complying with international practice, so that foreign businessmen will not have to worry about China's ever-changing tax laws.

The tax law should be inflexible in that the law must be followed and taxes must be collected according to the prescribed rates.

Many of China's enterprises are including their income tax in their contract base; a few localities even want to include the circulation tax in their contracts. This kind of tax-inclusive contract or disguised contract violates international tax practice. Lack of legal basis, failure to abide by the law, haphazard laws and regulations, and random tax exemptions and reductions are taboo. If taxation is not based on the tax law, it not only undermines policy implementation but also leads to international tax discrimination and revenge which disrupt normal international tax relationship. It was announced way back in a 14th National Party Congress report that we must make the separation of taxation and profit the principle behind our effort to smooth the allocation relationship between the state and enterprises. But clamors for the backward taxation approach of "tax-inclusive contracting" can still be heard. Given the conditions of a socialist market economic system, the contract system is only a transitional system, but taxation according to the law is practised worldwide and is a common tax principle.

Calculate taxable income according to pertinent provisions in the enterprise income tax law, so that taxation is not constrained by enterprises' financial and accounting systems.

So far, enterprises of different economic nature have adopted different accounting and financial administration systems, and they have different cost and expense rules, and as a result tax imposed on the same net income has created different actual tax burdens. This not only results in unfair enterprise tax burdens but also undermines efforts to standardize the tax system. Of course, the promulgation of the "General Enterprise Financial Principle" and "General Enterprise Accounting Principle" has laid a solid foundation for unifying the tax accounting standards, but even with a new unified financial accounting system, the tax departments still must draw up a uniform set of tax accounting standards. Because the tax law and the accounting system have different rules, the implementation of the two "General Principles" must be coordinated by setting tax accounting standards. Some of the criteria in the general financial principles must be based on the uniform tax accounting standards. For example, should the 0.3 percent to 0.5 percent bad-debt reserve be a upper limit or lower limit? Is the reserve itself consider loss due to bad-debt? Can it be expensed? All these must be determined by the tax department.

The principle of "taxation before allocation" should apply to all enterprise income generated by their production management activities.

This principle must be applied to all forms of taxation; otherwise, we cannot protect the state's interests and our own overall interests. When we developed lateral economic ties in the past, because the tax categories were set up according to economic components and the tax rates were irregular, to protect everybody's own interests, at one time, we practised "allocation before taxation," that is, a preliminary allocation of the realized profit was made based on the actual amount of investment, and the remainder was gathered by the respective investing organs, and income tax was paid based on the way each calculated its own taxes. This was meant to be a transitional method. Upon unifying the enterprise income tax system, we should insist on "taxation before allocation."

The tax rate should be lowered, but the tax base should be expanded. This is the most important aspect in restructuring the international tax system today.

One of the main reasons for China's chronic problem of "high tax rate, many tax breaks, narrow tax base, and light tax burden" in the past was that enterprises were given all kinds of hardship-related tax breaks, which drained much of the state's revenues. In addition, excess and reckless tax reductions and exemptions not only made it impossible to give play to the state's industrial policy and price policy but also encouraged enterprises to try their best to evade taxes, and this adversely affected the normal direction of development. Hardship-related tax reduction and exemption in fact are financial subsidies in disguise and tend to protect the backward enterprises and do not promote fair competition, and they may also jeopardize China's attempt to rejoin GATT. There is really no reason for us to keep those provisions. We should take advantage of this round of tax reform to lower the tax rates, expand the tax base as much as possible, and tightly control all tax reductions and exemptions, so that nominal tax burden and actual tax burden are the same.

With respect to value-added tax, deductions should be based on taxes paid as stated in the invoices.

According to international practice, all circulation taxes are stated separately from prices; taxes are an addition to the price. In this way, when levying value-added tax, one can add up the value-added taxes already paid earlier in the circulation process to find out how much tax an enterprise may deduct. This eliminates redundant taxation, and that is why value-added tax has become an important internationally-accepted tax category. However, under the traditional planned economic system, China's circulation tax has always been included in the price. Today, as one of the main tax categories, circulation tax plays a pivotal role among other industrial and commercial taxes. If we hastily separate taxes from the price, to generate the original amount of tax revenue, the tax rate must jump.

and if we want to keep the tax rate unchanged, the tax revenue will plunge, which will put the state in financial plight. For this reason, in the near-term, we should let some enterprises test the "method of tax deduction that separates prices from taxes at the time of purchase" to ease the conflict of unequal profit resulting from the way enterprises calculate their value-added tax when taxes are included in product prices. By restructuring the value-added tax system, we can simplify and merge the tax rates, expand the deduction scope, and promote a standardized value-added tax system, and then we can choose the most opportune time to make taxes a separate item when pricing a product and gradually implement the tax deduction method based on taxes paid as stated in invoices.

Uphold the tax system that emphasizes both the circulation tax and income tax:

The mode of taxation addresses the question of what primary tax categories a nation should install on a fairly permanent basis. Taxes that make up the primary tax categories should meet the following two conditions: One, they must account for a substantial share of the total tax revenues; two, they must play a significant role in regulating social-economic activities. Neither condition is dispensable. Chinese scholars disagree on which tax should dominate. Some advocate the income tax, others suggest the circulation tax, and even others suggest the resource tax. But most people agree that we should have a tax system that emphasizes two kinds of taxes—income tax and circulation tax. This choice is based on China's realistic situation and takes into consideration China's allocation system and the trend of future development and changes in tax revenue sources. It is expected that for some time to come, circulation tax will continue to play the most important role, and as the socialist market economic system gradually takes shape, income tax will play an increasingly bigger role. Despite all these, I am afraid we have a long way to go before we can have a tax system dominated by a single form of taxation—the income tax—like that in many Western nations.

Tax Reform

93CE0742C Beijing ZHONGGUO SHUIWU BAO
in Chinese 21 Jun 93 p 3

[Article by Dong Qingzheng (5516 1987 6927): "Clamoring for an Early Start: On Accelerating the Pace of Tax Reform"]

[Text] The author is a professor at the Central College of Finance and Banking. His major works include "State Tax Revenues," "A Study of Tax Theories," and "Complete Works on China's Reforms—Taxation Volume." He has also published several articles, including "Renewed Understanding of the Levels of Socialist Taxation and Distribution Based on Theories

for the Initial Stage of Socialism" and "A Study of the Development of an Externally-Oriented Economy and Its Proper Tax Measures."

The restructuring of China's tax system in the last 14 years has been a huge success. From a system which basically consisted of a single circulation tax, we have built a complex tax system that emphasizes both circulation tax and income tax and which consists of several tax categories at several links and several levels. On the one hand, in the wake of reform and opening up, this tax system has gradually established itself, and basically it is now able to satisfy the needs of reform and opening up. On the other hand, inevitably this system carries with it traces of many temporary "revisions and amendments"; there are still many imperfections and unreasonable elements, and in many ways it still cannot meet the needs of the development of the socialist market economy.

Given the conditions of the market economic system in China, the status of taxation should be boosted, and its role should also be strengthened, because:

The socialist market economic system demands a stronger role for taxation. Everybody knows that market mechanisms have the tendency to be spontaneous and random and tend to lag behind, and the state must use economic, legal, and administrative means to regulate and control the economy to avoid serious economic losses and waste of resources. Taxation is the embodiment of economic, legal, and administrative measures; it is a means to redistribute the national income. It can affect the economy by regulating the material gains to counter the market economy's random effects.

The breadth and magnitude of the effects of some regulation and control measures under the planned economy system have diminished under the new economic conditions, so we must strengthen the role of taxation as an economic lever. Take economic planning as an example. Even though we must still draw up annual and mid- to long-term development plans, the scope of mandatory planning has been greatly reduced. The rights to make production decisions and investment decisions have been handed down to enterprises which must plan their production according to market needs. Or as another example, all prices have basically been decontrolled; they are determined by the market, and planned prices now play a very limited role. Or take the profit lever for example. It plays a bigger role now, but when enterprises increase their microeconomic efficiency to maximize profit, there are some negative macroeconomic effects which require the state's regulation and control.

Taxation's own characteristics demand that it be given an even stronger role in the socialist market economic system. The mandatory nature of taxation dictates the effectiveness of its regulatory and control role. The taxpayers cannot avoid this kind of regulation and control because of its legal and administrative effects; otherwise they will be violating the law. Taxation's

noncompensatory nature and policy orientation dictate the strong aversive nature in the taxpayers' economic behavior toward taxation's regulatory and control effects. The imposition of heavy taxes on certain economic activities reduces the income of the taxpayers and increases the relative income of those who do not have to pay and prompts people to shift to the low-tax economic activities. Taxation works better in this respect than other compensated economic levers such as credit, interest rate, and exchange rate. The permanent nature of taxation dictates the definitiveness and transparency of its effects. Taxpayers engaged in economic activities are very concerned about how much tax they have to pay and how much income they will have after paying taxes. Taxation can also be far-reaching depending on how we define the tax scope; it can be versatile, because we can choose the objects of taxation, and it is policy-oriented, because we set the tax rates. These characteristics increase the breadth and depth of taxation's regulation and control over the market economy, which makes it the state's most effective economic regulation and control tool.

To meet the needs of the socialist market economy, the tax system must be restructured. Today, unlike the substitution of taxation for profit delivery, the restructuring of the industrial and commercial tax systems is not moving ahead of other economic reforms but is lagging behind. This not only adversely affects the creation and perfection of market mechanisms, but because localities and departments are initiating their own reforms and making their own decisions, tax laws have often become even less uniform and the tax burden even less fair, making the restructuring of the tax system even more difficult.

In my opinion, the tax reform line, principle, and ideas put forth by the State Administration of Taxation are basically feasible. The question is how to turn them into reality and complete the legislative process and put the law into effect as quickly as possible.

To accelerate the pace of tax reform, I have the following suggestions:

We should create an authoritative tax reform leading group at the state level, to be headed personally by the president of the State Council or the vice president in charge, and leaders of the relevant ministries and commissions should make up the rest of the team. The leading group is responsible for the examination and revision of each draft of the tax law which will then be submitted to the State Council for approval and in turn delivered to the Standing Committee of the National People's Congress for examination and approval. The drafting of the tax law should be undertaken by the State Administration of Taxation. It should submit all suggestions solicited from various quarters along with ideas it has accepted or rejected to the tax reform leading group.

The overall makeup of the restructured tax system in fact should be based on the value-added tax and dominated

by the income tax, but it should contain many types of taxes and tax categories. We best not mention a "dual system" dominated by the circulation tax and income tax to avoid confusion.

Science and technology are the number one productive force. The competition in the domestic and foreign markets ultimately is over science, technology, and personnel. We must make a firm decision to pay a small price now and use our tax revenues to promote the development of high-tech industries. With respect to income tax, we can extend preferential treatment in the form of lower tax rates. As for value-added tax, the six deductible items allowed under present laws in the sale of science- and technology-intensive products are not sufficient. We should consider allowing the deduction of the cost of design and research, the cost of popularizing new technologies, and training cost.

Merging individual industrial and commercial households' income tax with personal income tax is a possibility, but it will make legislation and enforcement more difficult. For many years, individual industrial and commercial households' income tax has been levied at the same time as product tax, value-added tax, and business tax; they are collected at regular intervals at fixed amounts or at fixed rates. Local tax bureaus have a lot of experience dealing with such taxes, and both the tax collectors and taxpayers are used to it. But if that tax is merged with personal income tax, first, it will be separated from the "three taxes," and given the large number of households that are so spread-out, collection will be difficult and will require additional manpower. Second, it makes tax calculation more complicated. We will have to calculate business income and operating profit and also figure out the net earnings after deducting the tax exemptions. Moreover because taxes are due at different times, in the actual process, we may have to continue to use the original method of collecting taxes regularly at fixed amount (rate.) We must keep this point in mind. Third, if we include personal business income in the personal income tax law, we will have to include the business income of individual workers engaged in agricultural, animal husbandry, forestry, and aquatic productions. If they are not included, we will have to come up with some legal explanation for their exclusion. Furthermore, considering the fact that all individual industrial and commercial households must obtain business licenses, it is also possible to apply the income tax applicable to all domestic-owned enterprises to them. While it may not be appropriate to adopt a proportional tax, the solution may be to retain the incremental percentage provision in the tax law. By not imposing a personal income tax on top of individual industrial and commercial households' after-tax profit, we can concentrate our effort on strengthening the collection and management of personal income tax when the latter becomes universal.

The unification of circulation taxes for domestic- and foreign-owned enterprises has become imperative in the wake of the rapid development of the "three kinds of

wholly or partially foreign-owned" enterprises. If value-added tax, product tax, and business tax can be legislated fairly soon, they should be unified at the same time. Otherwise, the Standing Committee of the People's Congress or the State Council, empowered by People's Congress, may pass a resolution to impose the value-added tax, product tax, and business tax on the "three kinds of wholly or partially foreign-owned" enterprises. If that happens, and if the tax rate applicable to those enterprises should change, we should adopt the low tax rate principle—taxpayers facing lower tax rates may use the new rate, and those facing higher rates may keep the old rate for the time being as a kind of favor to them. The "three kinds of wholly or partially foreign-owned" enterprises in Shenzhen and Hainan are already paying the "three taxes"; implementation of this new system nationwide should not pose much of a problem.

In short, restructuring the tax system is a major issue with strong political implications; it has broad ramifications and affects the economic interests of many; it must be undertaken cautiously. But it is impossible for tax reform not to affect everybody's vested interests. We must listen to everybody's ideas, but we must also be decisive. Given the conditions of rapid economic development, and while the income level is generally rising, we must seize the opportunity, coordinate with reforms in other areas, and introduce some tax reform measures as soon as possible.

Uniform Income Taxes

93CE0742D Beijing ZHONGGUO SHUIWU BAO
in Chinese 3 Jun 93 p 3

[Article by Liu Xinyi (0491 1800 0001) and Shi Jian (4258 1017); "Unifying Enterprise Income Taxes Is Imperative"]

[Text] The authors are affiliated with the State Administration of Taxation's Scientific Research Institute.

Today, we have both the need and the opportunity to reform and unify enterprises' income taxes, and we must speed up this reform process.

Unifying enterprise income taxes is an objective requirement in standardizing the tax system. When the development of the socialist planned commodity economy reaches a certain point, the objective economic environment also changes significantly. The current income tax policy can no longer meet the needs of the new economic situation. There are some problems in the enterprise income tax system which urgently need to be resolved. One, by applying different tax policies to enterprises of different nature we are in fact forcing enterprises to compete on unfair grounds, which violates the principle of fair burden of taxation. Two, there are many different tax rates, and the nominal tax burden is too heavy. Large and medium-sized state-owned enterprises pay a 55-percent proportional rate; small state-run enterprises and collective enterprises use the 8-grade progressive

surtax rates; private enterprises pay 35 percent proportional tax, and foreign-owned enterprises pay 33 percent (30 percent plus 3 percent) proportional taxes. In addition, different enterprises enjoy different preferential tax rates. These tax rates are too complicated, and enterprise have different tax burdens, making the income tax system highly irregular and difficult to manage. Three, different types of enterprises rely on different accounting standards; there is no uniform accounting procedure. The scope of pre-tax expenses is determined mainly by enterprises' own financial system; income tax poses little constraint. There are too many pre-tax expense items, many of which do not comply with income tax principles. In particular, enterprises are allowed to use pre-tax revenues to repay their investment loans, which seriously erode the income tax base. Four, the collection and management of enterprise income tax is slack. Enterprise income tax is under the jurisdiction of both the financial and the tax departments. The two often disagree over management matters. Ever since enterprises implemented the contract management responsibility system in full, state-run enterprises' income tax has existed in name only. The uneven tax burdens force the heavily-taxed enterprises to compete with the low-tax enterprises, and contracting has led to random exemption and reduction of state-run enterprises' income tax, making income tax less and less effective.

The reform of enterprise income tax is an important part of the optimization of enterprises' external environment. Unifying the enterprise income tax systems is an important condition that enables enterprises of different nature to engage in fair competition. The objective law of development of the commodity economy also rejects inequitable taxation. Unifying enterprise income taxes will help to improve the allocation relationship between the state and enterprises. The state is both society's manager and owner of state properties. Applying a uniform enterprise income tax to standardize the allocation relationship between the state and enterprises is first-level allocation. The state, as investor, has the right to share enterprises' profit, and this is second-level allocation. Only by delineating these two levels can we give expression to the allocation relationship between the state and enterprises in a scientific way. In a even deeper sense, a unified enterprise income tax will help separate government and enterprises and promote the change in enterprises' management mechanisms, and changing their mechanisms is the key to enlivening enterprises.

The basic direction in restructuring enterprises' income tax system: Restructuring the income tax system and the setting up of a unified enterprise income tax system must abide by two principles: One, it must follow the fair tax burden principle to create a tax environment where enterprises can engage in fair competition; two, it must help smooth the allocation relationship between the state and enterprises, invigorate enterprises, and guarantee the steady increase in state revenues as the economy develops. To realize the above principles, we must

re-establish the basic framework of the enterprise income tax system. The basic direction is to sort out the income tax breaks, expand the tax base, standardized pre-tax expense items, lower the enterprise income tax rate, change pre-tax debt payment to after-tax debt payment, and abolish the state-run enterprise regulation tax which is levied on top of the enterprise income tax and eliminate other tax-like funds and surcharges, and thereupon, we can separate taxes from profits.

The three critical issues in the development of the new tax system are to determine the pre-tax expense items, to determine the size of the tax burden, and to deal with the after-tax debt payment issue. 1. On the issue of standardizing pre-tax expenditures: First, we should make a distinction between enterprises' accounting system and pre-tax expense standards, because they belong in separate realms. The former sets the financial accounting standards, and the latter is the legal basis for determining the amount of income tax due. In computing income tax due, the following should be deducted from enterprises' total income: (i) production cost; (ii) marketing cost; (iii) circulation taxes paid in the marketing process, resource tax, and their corresponding surtaxes; (iv) nonoperating revenue shortfall; (v) other pre-tax items stipulated under state policies. 2. On the issue of the size of the tax burden: Realistically, because enterprises operate under very different production and management conditions, it will be difficult to meet everybody's needs if we implement a uniform proportional tax at this stage, but it will also be too complicated to adopt the five-grade progressive tax rates. Therefore, we should adopt a two- or three-grade lump-sum progress tax to make the tax burden as reasonable as possible, and it will make the collection and management enterprise income tax easier too. 3. On the issue of pre-tax debt payment: Pre-tax debt payment will be abolished and will be replaced by after-tax debt payment; this is a foregone conclusion. The only thing is, some enterprises may have trouble coping, and in that case, their debt-payment period may be extended. Enterprises that truly cannot repay their debts may seek help from the financial, banking, and tax departments. Under the state's industrial policy, enterprises conducive to the development of the national economy will be given assistance, and those that are not should consider shutting down, stopping production, merging, or converting to other lines of production. If the above three issues are successfully resolved, and under the right conditions, when restructuring enterprises' income tax system, we should also consider the issue of tax indexing.

Securities Markets Situation, Prospects

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[Article by Wang Jingshi (3769 2529 1597), vice president of the Agricultural Bank of China: "China's Securities Business: Status Quo and Prospects"]

[Text] China's securities business is a product of our economic reform, having accumulated a dozen years or so of experience. Through these dozen or so years of experience, China's securities markets have essentially evolved and acquired a brisk growth momentum.

I. The Historical Evolution of China's Securities Business

China's securities business emerged in the late Qing Dynasty, showing a certain prosperity. In the early days of the founding of the PRC, the two cities of Tianjin and Beijing opened on 1 June 1949 and 1 February 1950, respectively, the Tianjin Stock Exchange and the Beijing Municipal Stock Exchange. But before long, as national fiscal policy was centralized and money markets gradually stabilized, they were both abolished in 1952. In 1950, in support of the approaching final victory of the Chinese People's War of Liberation, the Central People's Government issued "People's Victory Discount Bonds," amounting to about 260 million yuan. Also in 1950, to promote the implementation of the First Five-Year Plan and speed up China's pace of economic development, the Central People's government also issued "National Economic Development Bonds," amounting to 3.539 billion yuan.

But during the decades from the 1950s to 1981, as we were practicing a highly-centralized planned economy, which eliminated diversified credit forms, concentrating them all in state banks, securities markets remained excluded from our planned economy system.

After the Third Plenary Session of the 11th CPC Central Committee, as our economic-system reforms steadily intensified, China's economic order went through a great change, in which economic lateral alliances and development saw the coexistence of diversified forms of ownership and economic components. Meanwhile, our banking system also broke out of its single state-bank credit pattern, to gradually evolve into a socialist banking system led by the central bank in which state banks were dominant but coexisted with diversified credit forms. These were the conditions in which China's securities markets evolved and developed. In 1981, when the State Council decided to resume issuing national treasury bonds, this was the prelude to China's securities markets. China's current stage of stock offerings began in 1983. In that year, the Shenzhen Municipal-Baoan County Joint Investment Corp made the first public offering of shares in Shenzhen. Then in 1984, Beijing established China's first limited-liability company—the Tian Qiao General Merchandise Corp, Ltd, which sold three-year fixed-term shares. Later the Shanghai Fei Yue Acoustics Corp, Ltd made a partially public offering of nonrepayable shares. Incomplete statistics show that China now has 3,683 shareholding enterprises of all types, in which 12 percent of shares are held by legal persons, 86 percent by employees, and 2 percent by the public.

II. China's Securities Business Status Quo

While China's current securities business began only about a dozen years ago, its successes have attracted worldwide attention.

A. Stock Offerings and Circulation Have Begun To Take Shape, With Varieties Becoming More Diversified.

From 1981 to 1991, China sold 270 billion yuan worth of all types of negotiable securities, of which 56.19 percent were government bonds, 6.81 percent were enterprise bonds, 2.08 percent were stocks, 12.42 percent were bank bonds, and 22.5 percent were fixed-term, large-denomination, transferable deposit receipts. By the end of July 1992, 666 enterprises throughout China had issued shares amounting to 15.055 billion yuan. The two cities of Shanghai and Shenzhen alone had 69 enterprises that offered shares amounting to 9.7 billion yuan. When Shenzhen and Shanghai issued special rmb shares (abbreviated as B shares) in 1992, this enriched China's securities diversity, showing that China's stock markets had begun to become internationalized. As our markets of issue have steadily expanded, our circulation markets have also become constantly brisker. Some years back, as national treasury bonds could not be transferred, and the public had a hazy awareness of securities investment, our securities trading markets lagged behind our securities issue markets not only in beginning, but also in degree of development. But in recent years, as the state has further clarified its policy of encouragement and support for stock market development, this has injected vigor into our securities exchange markets. On 5 August 1986, the Shenyang Municipal Trust and Investment Corp was the first to provide bond business, transfer, and collateral services. Since 1988, 61 cities throughout China have set up treasury bill circulation markets. Then in November 1990 and April 1991, respectively, the cities of Shanghai and Shenzhen officially opened stock exchanges. In 1990, with State Council approval, a "National Securities Exchange Automatic Price Quotation System" located in Beijing and linked to all key Chinese cities went into operation. So China has begun to evolve a securities circulation system grounded in the "two exchanges and one network." China now has over 70 securities companies, 400 securities business departments, more than 1,500 securities agencies, and over 4,000 personnel engaged in the securities business. In 1991, our securities trading volume reached 55.47 billion yuan. In 1992, our securities trading volume on the Shanghai and Shenzhen stock exchanges alone reached 101.5 billion yuan.

B. Our Securities Market Management Is Gradually Becoming Standardized.

This can be seen mainly in the following areas: 1. We have drawn up certain management laws and regulations. To guide securities markets to healthy development, the State Council issued "Interim Regulations

on Enterprise Bond Management" (1987) and "Circular on Strengthening Stock and Bond Management" (1987). Meanwhile, the People's Bank of China [PBC] drew up "Interim Regulations on Securities Company Management" (1990) and issued a series of documents on securities offerings and transactions. All local governments and PBC branches have also drawn up numerous local laws, regulations, and management provisions. So China's securities offering and exchange have essentially acquired laws to follow that have begun to put them on a path of legal control. 2. Our securities offering formalities have gradually become standardized. In 1988, the State Council set up a clear division of labor on stock market management functions for sectors, such as the PBC, the State Planning Commission [SPC], the Ministry of Finance [MOF], and the System Reform Commission [SRC], with each sector having its own responsibilities, performing its own functions, acting in mutual coordination, and any problems being resolved by centralized State Council coordination. Then in 1991, the State Council approved the establishment of the Joint Securities Examination and Approval Office formed of sectors, such as the PBC, the SPC, and the MOF. Under the joint management of these concerned sectors, stocks and bonds have quota control and more standardized examination and approval formalities. Shenzhen and Shanghai stock offerings have also begun to become orderly and standardized. 3. We have set up national general securities companies. In October 1992, with the approval of the head office of the PBC, China set up three national general securities companies across industrial, departmental, system, and regional lines, i.e., the Southern Securities Corp Ltd, the Huaxia Securities Corp Ltd, and the Guotai Securities Corp Ltd. The establishment of these three general companies will be bound to play a huge role in strengthening our stock market control, actively guiding and promoting China's stock markets to healthy development, and stabilizing and unifying China's stock markets. 4. Signs of a securities control system have begun to emerge. China's securities companies and exchanges have now begun to practice management by the laws of their profession. In 1991, with the approval of the State Council, over 100 Chinese securities companies organized into the China Securities Business Association, and MOF set up the National Treasury Bond Association. To further strengthen macroeconomic control over our securities markets, and to unify and coordinate policies relating to stocks and bonds, the State Council decided in 1992 to set up the Securities Commission and the Securities Oversight and Control Commission, which was a significant step in separating China's securities and banking professions, and in perfecting our stock market management. So a securities control system combining state macroeconomic control with self-rule by the securities profession is just in the process of being created and formed.

C. Our Securities Trading Is Becoming Gradually Modernized

The soaring advances in modern science and technology have opened up broad prospects for renovating our stock exchange methods. China's stock exchange modernization has now reached a quite high level. The world now has eight completely computerized stock exchanges, of which Shenzhen is one, as well as three paperless exchanges, of which Shenzhen is also one, with the other two being in Singapore and Holland. In addition, proxy transactions by phone are now being disseminated in China. As the modernization of our stock exchange methods has increased the speed of our securities business transactions and raised the efficiency of our post-transaction dealings, it has sharply increased our stock exchange scale. In just a few short years, China's stock markets have gone through a process that took decades or even hundreds of years in Western nations.

As to practice, our securities market development and improvement have played positive roles in promoting the development of China's national economy.

1. They have broadened the means of financing. As a direct means of financing, securities markets have absorbed a large amount of idle funds, guided a rational flow of savings, and eased fund shortage conflicts to supplement fiscal deficits, balance state fiscal budgets, and support national priority construction projects. In the 11 years from 1981 through 1991, Chinese enterprises raised nearly 400 billion yuan through selling all types of securities, with individual purchases making up 70 percent.

2. They have vigorously promoted economic reforms. The emergence *per se* of securities markets is a key substance and result of economic reform, while touching off the conversion of a series of mechanisms, such as fiscal, planning, investment, banking, and enterprise, to speed up the pace of economic reform. As to enterprise operating forces for example, the conversion to shareholding has changed the former system of dependence on state funding alone, effectively separating capital goods ownership from operating rights, changing the distribution system within enterprises, and better dealing with the profit relationship among the state, collectives, and individuals.

3. They have increased the public's investment options, satisfying public demand for diversified financial assets.

4. They have opened up a way to attract foreign investment. The opening up of China's securities markets has attracted investment interest by many foreign investors and financial institutions. A very good example of this is how the B shares offered in Shanghai and Shenzhen were snapped up so quickly. Raising foreign capital on securities markets will play a key role in improving China's foreign investment structure and opening up new fund-raising channels.

III. Key Problems That Exist in China's Securities Business

While China's securities markets have made outstanding progress in the last dozen or so years, they are generally still in a developing stage, quite immature, and subject to many problems.

A. As to our overall securities business planning, our securities market disposition and operation lack the strategic guidance of macroeconomic order, overall regional planning, and staged application goals. On one hand, our securities market disposition has not comprehensively considered and rationally chosen factors, such as overall securities issue, regional distribution structure, and public and resident financing potential, i.e., instead of overall consideration and flexible adjustment of market distribution and structural systematic planning from the macroeconomic to the microeconomic, its disposition comes mainly through the concerned sectors in all areas, with local central bank branches acting only as market mass producers and providing insignificant oversight. Driven by administrative authority and profits, many localities compete with each other in building market frameworks. Some areas have very incomplete key essential market-development factors, but an extremely high enthusiasm for expanding markets of issue and establishing exchange markets, leaving securities exchange in a fragmentary and scattered state, and unable to achieve exchange and efficiency of scale. Other areas have more mature qualifications, but lack rational planning and competent guidance, so that market development is extremely slow. On the other hand, our securities market operation and expansion also lack overall planning, with unclear development directions and patterns, and the development process lacking system, comprehensiveness, and foresight, making it impossible to accurately project the mutual impact of short-term securities market development and economic operation changes, and lacking in overall impact on economic operations. This objectively demands that we combine long-range planning with short-term tactics, to enhance our projection and contingency capabilities in securities market development.

B. As to our securities market development scale, Western experience shows that for securities markets to fully play a series of roles, such as fundraising, optimizing industrial structure, raising enterprise efficiency and management level, curbing inflation, and promoting economic growth, it is essential that securities issue and circulation volume reach a certain level to account for a sizeable percentage of enterprise funding sources, which percentage is still low in China. As to indexes, such as the ratios of securities issue to GNP, overall loans, investment scale, and national savings, China's figures are all at only 10 percent, in some cases even less, while being at about 30 percent, and in some cases even higher, for developed nations and certain rising developing countries and regions. For instance, securities issue in both the U.S. and Japan exceeds bank savings by over 100 percent. This makes the objective demand that, with the

guidance of macroeconomic development strategy, we pay attention to regional economic realities without missing changes to expand our market scale in a focused way, to promote China's securities business and speed up the intensification of our banking profession.

C. As to our securities market supply, we have a quite glaring problem of securities issue and exchange markets being imbalanced by area throughout China. This can be seen first in our large market-distribution structural gap, with distribution descending from coastal through interior to border regions, and securities issue and exchange being concentrated mostly in a coastal strip of developed and comparatively developed zones. It can be seen secondarily in our market-variety structural imbalance, with a severe imbalance between bonds and stock proportions. By the end of 1991, China's stocks made up only 2 percent of our negotiable securities issue. This too low stock volume, plus an irrational bond-term structure, means that too many funds go after limited stocks, causing a very glaring conflict between supply and demand. The frequent panic-buying of stocks in Shanghai and Shenzhen not only affects stock market stability, but also is adverse to our overall social stability.

D. As to our securities market regulation and control, the more we practice a market economy, the more our socialist securities markets need stronger macroeconomic regulation and control, and the more we need to develop a coordinated market system. But our reality is that we are still far quite far from this goal and demand, for the following two reasons. 1. Our securities market formation and organization is quite decentralized and disorderly. Securities market formation is diverse in all areas, including that independently organized and led by the PBC, independently or jointly organized by special banks and nonbank financial institutions, and independently organized by local government departments, with both vertical and lateral composition, as well as both administrative-driven and economic-cooperation alignments. Organizational settings and operating forms necessarily differ, forming piecemeal, carved up markets, and interregional and even intraregional loose securities market links and mutual isolation. Moreover, backward means of communications, slow information feedback, and weak intermediate transmission make it hard for market information to be shared in a timely way, as well as for macroeconomic regulation and control bodies to control the overall situation, project prospects, and make timely adjustments to achieve an equilibrium effect among securities markets. While our three large national securities companies have now begun to operate, opening up broad prospects for forming a uniform securities market system, smoothly conducting macroeconomic policy, and promoting the specialization, modernization, and internationalization of our securities business development, they have after all just been organized, so still need to make strenuous efforts. 2. Our unsound market forces in areas, such as foreign trade, operations, competition, restraints, pricing and policy adjustment, intermediate transmission, and information feedback, are unsuited to securities market development needs, presenting great macroeconomic regulation

and control difficulties, even to the extent of forcing the correction of market operating discrepancies to rely on administrative measures for mandated control, and making it impossible to develop open market operations, handle securities, adjust supply and demand, or curb market volatility. This means that we need to speed up our securities market integration, by developing and perfecting our market forces and regulation and control capabilities.

E. As to our securities market standardization, operating and management standardization are key criteria for evaluating securities market development and basic ways for guiding securities markets to maturity, as well as key conditions for conducting macroeconomic regulation and control, bringing market efficiency into full play, and gaining public confidence. China's securities market standardization is still generally quite low, with clear interregional and intraregional gaps between securities markets. The low standardization can be seen in unsound and nonuniform market laws and regulations, with market operations lacking complete legal grounds, even to the extent of causing certain unhealthy securities issue and exchange behavior; many rules and regulations are out of line with international practice, affecting securities overseas issue and internationalization progress; stock issue methods are quite backward, requiring lotteries and lines, which increases issuing costs and easily infringes on the principles of fairness, justness, and openness; securities operating agencies do not play the roles of guiding public investment behavior and organizing and cultivating markets; and securities market self-control still lacks a set of rigorous rules and systems. As to interregional gaps, economically developed regions have a higher degree of market standardization, with places, such as Shanghai and Shenzhen, drawing on successful international experience and current laws, conducting a rational upgrading, standardizing in all areas, such as market operations, competition, and regulation and control, and achieving good operating and debugging results, with their bold referencing, upgrading, and experimental methods providing first-stage preparations for the legalization and proceduralization of China's securities markets; economically undeveloped regions are in an emulation stage as to market standardization, either drawing somewhat on the experience of developed regions or conducting market operations according to their own designs, with market standardization being roughly in a rudimentary and improving state, but still far from that of developed regions; and economic backward regions are deficient in market standardization. This objectively demands that we speed up our securities market legalization, by forming a set of rigorous institutions and coordinated management regulations, to pave the way for the standardization and internationalization of China's securities business.

In addition, current securities business factors, such as rather backward operating methods, low personnel quality, and deficient individual investment forms and efficiency, are also matters that must not be overlooked in improving and developing our securities business, and ones that must be given overall consideration with a scientific approach and systematic criteria.

IV. China's Securities Business Prospects and Plans

From a historical perspective, the relative maturity of securities markets in a few capitalist countries took a course of slow development over 200-300 years to lead and develop into world-class securities markets, occupying a monopoly status right from the start. The three cities of New York, London, and Tokyo now account for over 80 percent of world securities issue and exchange, with their securities market changes presaging and determining world securities market trends. But as China's securities markets have actually been developing only for the short period of less than a dozen years, particularly having emerged in the setting of the gradual slackening of decades of a highly controlled and centralized economic system, leaving them in an exploratory stage of primary development, it is hard for them to avoid difficulties and problems of one sort or another. So we must both face up to and downplay these difficulties, by recognizing the superiority of socialist society in creating higher productive forces than capitalism, particularly that the establishment of a socialist market economy will necessarily and certainly speed up the development of our socialist securities markets, while also realizing that the development stage and level of socialist society mean that our securities market development will necessarily and certainly be a process of gradual advance along a path with distinct Chinese characteristics.

The basic trends in China's future securities business development will be:

While our stock offering scale will further increase, our bond market will retain its dominant status. In 1992, our securities issues of all types topped the 100-billion-yuan mark. As Comrade Deng Xiaoping's southern-tour speeches become further assimilated and our socialist market economy is established, our economic growth rates will rise sharply. Particularly as overall reform of our national economy is in full progress and government functions are being converted, our financial intensification will make certain advances, direct financing will expand in form and pace, and reform of our property rights system, adjustment of our ownership relations, and conversion of our operating forces represented by the shareholding system will enter a new stage. So it can be said with assurance that our securities offerings will reach new heights in 1993, with our annual securities listings for the next few years very unlikely to fall below the 100-billion-yuan mark, giving China's securities business bright prospects. In light of our securities business development over the past dozen years or so, in which bonds have remained the major means of securities market financing, while our bond market will gradually lose share in our overall securities market volume, this loss will be insignificant. But our bond market structure will undergo a certain change, in which our bond-issue market of mostly national treasury bonds will gradually shift to one of mostly enterprise and corporate bonds. Enterprise and corporate bonds will grow in size and pace to a new stage in the next few years. In

addition, in line with investors' and fundraisers' diversifying needs, new varieties, such as trust beneficiary bonds, attached-subscription holding bonds, transferable bonds, and investment funds, will also develop somewhat. All of our securities offerings will tend to become more diversified and comprehensive, with sharply increased standardization.

A uniform market will begin to evolve. Based in key cities, such as Shanghai, Shenzhen, and Beijing, a securities exchange information network linking all key cities throughout China and a securities exchange operating system of analysis, assessment, price quotation, exchange, and settlement will become integrated into one, with our decentralized and regionalized securities markets being replaced by systematic and integrated ones; our securities business self-rule management capabilities will increase sharply, with securities business association functions undergoing a qualitative change from form to substance, and the self-management level of securities business agencies, including specialized securities companies, securities business networks, and stock exchanges, improving sharply; the radiation effect and extension capability of key regional securities markets to neighboring regions, urban to rural, coastal to interior, and interior to remote border regions will clearly increase, very likely bringing the development of a number of local regional markets and rural specialized ones. Our three large national securities companies will employ forms and means, such as share participation, reorganization, alliances, mergers, and self-extending networks, while relying on their respective geographic, financial, personnel, and technological advantages, to begin to evolve a securities business system covering all of China, in which an order of sharp competition will emerge.

Our securities markets will become internationalized. Securities market internationalization is a basic trend of China's securities business development, as well as a key aspect of China's expanded opening and participation in international economic affairs. Our securities market internationalization involves mainly two levels of thinking: 1. Our securities market basic norms should conform to international practice, in the interests of developing international exchange and cooperation and successfully attracting foreign investors. 2. We should draw support from intermediaries and attract international capital-market circulation to develop our domestic economy and raise our domestic securities business prestige. In general, the series of rules and regulations that China has published since 1992, such as "Limited-Liability Shareholding Corp Standardization Suggestions," "Limited-Liability Corp Standardization Suggestions," "Accounting Regulations for Experimental Shareholding Enterprises," "Interim Regulations on Enforcement of Experimental Shareholding Enterprise Business by Registered Accountants," and "Interim Regulations on Certain Financial Management Problems of Experimental Shareholding Enterprises," a number of shareholding-system laws and regulations that

are yet to go into effect, bond and stock management regulations that were published and put into effect in the past, and future adjustment, strengthening, and constant improvement of these laws and regulations, will all undoubtedly pave the way for the gradual standardization and internationalization of China's securities business. Moreover, our current listed B-share operations are also going well. The future trend will be open coastal zones, mostly the Shanghai and Shenzhen stock markets, going into action first to get onto an international track, and then pulling along securities markets in all large coastal cities in a gradual transition. In this process, our large national securities companies will play a key promotional and driving role, which will be seen in connection with overseas securities agencies, such as information links, service cooperation, experience exchange, and joint-run entities.

In light of China's securities business status quo and trends, and based on our socialist economic system and need to develop a market economy, we hold that reform and development of China's securities markets will necessitate a positively reliable approach, with increased reform share and accelerated reform progress, along with attention to completeness, orderly application, and steady advances.

1. We need to develop a shareholding economy based on the dominance of socialist public ownership. Practice has proven that the shareholding system is a very efficient property-rights model, which better achieves a rational disposition of resources and expresses the inherent links among responsibilities, rights, and interests, and can sharply stimulate initiative, independence, creativity, and enhance enterprise contingency and development capabilities. Moreover, in light of our current imbalanced securities market structure, balancing stock supply and demand relations to make securities markets brisker will require expanded market scale, increased market supply, and faster shareholding-economy development. As stocks are most liquid and profitable, being most attractive and alluring to investors, they are most capable of making securities markets brisker. This point has been proved in practice by most countries. In developing a shareholding economy, we hold it most important to understand two points: 1. Active advances. We must not fear that a shareholding economy will shake our ownership structure in which the public economy is dominant. While fundraising through shareholding may touch off a gradual change in previous property rights relations, this change will be quite slow and gradual, so that our longstanding previous property rights relations will certainly not undergo a qualitative change because enterprises use the fundraising form of shareholding. Even once large-scale shareholding experiments are launched, it will still be impossible to simply equate the socialist shareholding system with the capitalist one, as the socialist shareholding system will not consist of property rights relations being manipulated by a few financial magnates as in capitalist countries, but rather will remain largely dominated for some time by

public shares, including state and corporate shares. Moreover, as to overall economic operations, it will be impossible for the socialist shareholding system to be monopolized by a few private financial magnates. 2. Reliable application. The development of the shareholding-company system in capitalist countries began first with large-scale capital demand by industrial sectors, such as river courses, railways, and heavy industry. As a socialist country, our development of a shareholding economy should be guided even more so by industrial policy, with focused progress instead of precipitate action and arbitrary conversion as soon as the shareholding system is mentioned. So our enterprise conversion to shareholding must be premised on enterprise efficiency and social benefits, with our shareholding structure adhering to the dominance of state and corporate shares. As used here, a shareholding economy certainly does not mean that each particular enterprise must practice it, but rather refers generally to a region. Enterprises now practicing experimental shareholding must be pushed to further standardization; enterprises that will convert to shareholding must act strictly according to standardized procedures; state regulation and control of shareholding enterprises should be mainly authoritative regulation and control in areas, such as macroeconomic policy and legal institutions, to strengthen regulation and control capabilities; and we might as well deregulate shareholding in SEZs, so that it can be initiated on a large scale. State enterprise shareholding conversion should be opened up gradually by level, with the central government in charge of the conversion of large state enterprises, local governments being responsible for the conversion to shareholding of small and mid-size state enterprises and collectives, and the major means being policy, planning, and economic means to do a good job of quantitative and structural regulation and control. Meanwhile, we need to pay attention to developing complete social insurance and labor guarantee systems, by opening up the labor market and enhancing labor management and job flexibility, to provide more job opportunities for personnel from losing and bankrupt enterprises and for those who have lost their jobs or been dismissed (usually at the expiration of a contract).

2. We need to set up a regulation and control system for the securities business that combines planned adjustment with market regulation. Just as a planned economy does not equate with socialism, since capitalism also practices planning, a market economy does not equate with capitalism, since socialism also has markets, meaning that planning and markets are both simply means. This penetrating judgement of Comrade Deng Xiaoping profoundly delineates the basic features of economic operations under socialist conditions. Socialist market economy operations actually combine planning with markets. So this combination of planned adjustment with market regulation was bound to become the basic line of thinking on establishing regulation and control forces for our securities business. This can yet be further viewed from two aspects. Theoretically, the role

of market regulation in securities exchange and socioeconomics is a process of advance from microeconomics to macroeconomics, with the regulation fulcrum being individual and group interests, so that while its impact on short-term and microeconomic securities exchange is effective, its impact on long-term and macroeconomic securities exchange is likely to produce sharp discrepancies, leaving the function of market regulation mainly reflected in microeconomic securities market operations. But the role of planned adjustment in securities operations and socioeconomics is one of expansion from macroeconomics to microeconomics, with the adjustment fulcrum being overall and social interests, so that while its impact on long-term and macroeconomics is farsighted and comprehensive, its impact on short-term and microeconomic securities market operations is likely to produce certain negative effects, leaving the function of planned adjustment mainly reflected in macroeconomic securities market operations. The inherent limitations of these two regulatory means determine that the two must be organically combined in actual practice, to achieve the degree and force of mutual supplementation of advantages and reduction of respective deficiencies. But practically, a key cause of the various problems that have emerged in a dozen years or so of securities business development is that market forces and planning mechanisms are not sound, complete, and perfect, leaving their so-called combination at most a simple piecing together, with too much static adjustment, too little dynamic regulation, and the regulatory function far from being performed. For instance, the problem of curbing sharp stock market volatility is a vivid example. In which case, how are we to strengthen and perfect our securities business regulation and control forces? I personally believe that in light of our economic reform-progress needs and financial reform realities, as well as securities-assets peculiarities and securities-circulation complexity, the more appropriate form to adopt would be a combination of directive planning, guidance planning, and market regulation. In actual operations, planned adjustment should occur within the setting of market operations, to fully reflect the market features of planning, while market regulation must be guided by planning, to achieve the objective of state adjustment of markets and market guidance of enterprises and the public. Directive planning should emphasize setting forth mid- and long-range development goals and trends for securities markets, by basing its actions on the state of market operations and scientific projections to adjust development goals and priorities, to combine mid- and long-range planning with immediate realities. Guidance planning should emphasize setting forth short-term securities market development goals, by basing its actions on macroeconomic development strategy and market operation realities to stimulate indirect regulation and control forces, to impact microeconomic securities market operations through intermediate conductors, and automatically correct adjustment degree and force. As our current needs are to speed up the development of indirect regulation and control forces to supplement our indirect regulation and control means, particularly open

market services, our three large national securities companies should perfect their functions in this area, to stabilize securities exchange market operations. Meanwhile, we need to allow market forces to become fully engaged in the securities issue and exchange process, with no securities offerings being subject to administrative apportionment, and once offered, being listable and circulable without any obstacles. As stocks need to be developed in level and variety to increase investor-option flexibility, we could consider promoting a number of venture-type enterprise share listings to enrich our market substance. Particular market organizers and operators must pay attention to understanding well both the macroeconomic and microeconomic perspectives, by obediently accepting planned guidance, becoming adept at bringing into play market forces, particularly means of competition, and guiding the securities flow-direction, flow-volume, and circulation structures, to bring securities investment and circulation as much as possible into line with industrial, trade, and regional policy demands. In short, planned adjustment must be based on market operations, and market regulation must be oriented to planning activities, to strive for rational role limits, forms, and methods, and achieve balanced operations and good cycles from the macroeconomic to the microeconomic.

3. We need to emphasize the drawing up of national securities market laws and regulations to enhance our securities market management and promote securities market standardization. Based on following international practice combined with China's realities, we need to put into effect as quickly as possible a "Securities Law," a "Securities Exchange Law," a "Corporation Law," and all types of laws, rules and regulations, and institutions relating to securities markets to make securities import-export norms, competition standards, and operating rules uniform for all areas. We need to strictly distinguish the boundaries between bonds and stocks, by correcting the substitution of bonds for stocks in some places to protect our stock market development. We need to ensure fair competition among fundraisers, investors, and between fundraisers and investors, so that competitive forces can play a conscientious role in regulating fund supply and demand, public investment options, and the securities structure to reduce unchecked and divisive competition. We need to eliminate operating barriers to standardize operating activities. Meanwhile, we need to strengthen securities business self-rule and public oversight, by reinforcing the organizational and institutional establishment of securities business self-rule to clarify functions, responsibilities, and particular needs, and do a good job of self-rule management. Through actively bringing into full play the public oversight role of the securities control sector, accountant services, and auditing agencies, we need to organically combine government macroeconomic control with securities business self-rule management. In addition, we need to reinforce our training of securities business personnel, improve our communications tools and operating methods, widely disseminate securities knowledge.

and raise the financial investment and risk awareness of enterprises and the public. In short, we need to work toward the legalization, normalization, institutionalization, and internationalization of our securities market operations.

We believe that as long as our orientation is clear, our priorities are emphasized, our measures are complete, and our coordination is balanced, China's securities business will evolve quickly from a state of low-level immaturity to one of high-level maturity.

FOREIGN TRADE, INVESTMENT

Legal Resolution of Software Copyright Infringement

93CE0700A *Beijing LIAOWANG [OUTLOOK]*
in Chinese No 22, 31 May 93 pp 35-36

[Article by Wu Xiujun (0702 4423 6511): "Actual Account of China's First Computer Software Copyright Infringement Case"]

[Text] On 23 February this year, the People's Court of Haidian District where the "Electronic Street" of Beijing Municipality's Zhongguancun Village is located began hearing the first computer software copyright infringement case ever brought to the people's court since the promulgation of the "Copyrights Law" and the "Provision on Computer Software Protection." This case set precedence for the legal protection of intellectual property rights in China's computer software industry.

Why the Plaintiff Sued the Defendant for Infringement

The plaintiff in this case was Beijing Haidian District's civilian-run Weihong Computer Software Research Institute. The defendant was Yuanwang Technologies Company which was owned by China Scientific Institute

After the presiding judge announced that the court would commence its investigation, the plaintiff's legal representative and general manager, Yu Bin [0060 3453] stated the facts and reasons for and the terms sought in the lawsuit.

"In 1991, our institute began investing in the development of reverse translation and editing software for data base management applications. The software was successfully developed at the end of October that year. It was named 'unFox 2.1 Reverse Translation and Editing Doctor Version 2.1.' It was approved by the China Computer Software Registration Center on 15 June 1992. Our institute received a copyright registration certification for the software (registration number 920009.) According to regulations under the 'Provision on Computer Software Protection' and 'Computer Software Copyright Registration Measures,' we have copyright to that software for a minimum of 25 years, beginning on 21 October 1991. Since its successful development until October 1992, we have been selling an average of 15 sets of that software a month, and in addition, we have been

advertising in ZHONGGUO JISUANJI BAO and JISUANJI SHIJIE to promote sales."

"In September 1992, at the National Computer Products Exhibition and Trade Fair, we discovered someone handing out massive promotional materials on our software. Upon investigation, we found out that it was Heima Products Division of Beijing's China Scientific Institute's Yuanwang Technologies Company. As they openly quoted price and promoted the sale of our product, they also made copies of our software for sale on the spot, making it available everywhere and causing us serious economic losses. We therefore ask the court to order the defendant to cease this act of infringement, deliver a public apology, and compensate our institute 186,057.94 yuan for damages."

Not a Complicated Case

The development of computer software is a complicated process that takes a tremendous amount of wisdom and money. But the duplication of a piece of software is simple, quick, and cheap. Therefore, despite the intense effort to prevent illegal duplications, it has been difficult to curb the software counterfeiters who are bent on making a huge profit. Those who make copies of and sell other people's software often do so on the spot according to the customers' instructions, and they seldom state the names of the software in the sales receipts; instead they put down "service charge" and so on. This makes it difficult for those whose rights have been infringed upon to obtain evidence as to how many pieces of software have been illegally copied and sold.

To win this lawsuit, the plaintiff twice went out to obtain evidence; they were serious. On 28 September 1992, Weihong Institute paid Beijing's Haidian District Notary Public Office 100 yuan in evidence custodian fee. The notary public went undercover to the defendant's Heima Products Division to purchase a package of unFox software, and the evidence was notarized. On 9 November 1992, the plaintiff's lawyer—Ye Lin [5509 2651], lawyer from Beijing No. 10 Law Office and PhD candidate from Beijing People's University Law School—accompanied by a fellow student who knew software well, went to Heima Products Division posing as ordinary customers and paid 340 yuan for a duplicate copy of unFox software and obtained a receipt stamped with the special business seal of China Scientific Institute-Yuanwang Technologies Company.

The software that had been in the notary public's custody and Weihong's own unFox software were sent by the court to the Ministry of Machine Building and Electronics' Institute of Microelectronics Development Research Center for tests. The result showed that "after comparing the two software, except for 10 percent of the object codes that are different, the names and the results of the commands, most of the object codes, and the names and contents of the manual are the same, and they

even contain the same misspelled English words and the same English logo of Weihong Institute.

To prove that the infringement was intentional, the plaintiff presented to the court the price list containing the name and the price of unFox software handed out by Heima Products Division at the National Computer Products Exhibition and Trade Fair.

Solicitor for the defendant did not contest the facts as presented.

Who Should Be Held Responsible for the Infringement

When the plaintiff brought the lawsuit, it specifically stated that to prevent illegal copying it had put an anti-theft code in the software and that the infringement actually took place in the copying and sale of the software after the code had been broken. The question is, where did the software the defendant used for copying come from? How come there was no anti-theft code in the software? To answer these questions, the court summoned Mr. Wang of Heima Products Division to testify.

Presiding judge: How did you obtain the unFox software?

Wang: In early September 1992, a customer came to us to inquire about software technologies. After I answered his questions, he made a copy of his unFox software and gave it to me as a present.

Presiding judge: Do you know this customer who came in for consultation? Where does he live?

Wang: I do not know him. That was the first and last time I met him.

Because Wang would not name the "inquirer," the source of the decoded software will forever be a "secret," and it also means that the defendant must pay a price for this "secret."

After the questioning and upon presentation of evidence, the facts of the defendant's illegal copying and sale of other people's software were made clear, but on the question of who should be held responsible, the defendant's attorney, Li Dazhong [2621 1129 0022], stated that it would not be Yuanwang Technologies Company. Li said, Heima Products Division is a partnership put together by individuals and is not a legal entity; it is relatively independent, although it has a cooperative agreement with Yuanwang Technologies Company. Heima operates independently and may sell its software within the business territory covered by Yuanwang's business license. Under Article 2 of the "Copyrights Law," organizations that are not legal entities may act as holders of copyrights, and therefore Heima Products Division and Yuanwang Company's agreement of cooperation is a valid agreement, but Yuanwang Company is only responsible for Heima's legal business operations and should not be held responsible for its conduct as a nonlegal entity in the sale of other people's software without prior permission.

The defendant's attorney, Ye Lin, refuted the defendant's argument saying that the agreement between Heima Products Division and Yuanwang Company in fact makes Heima a part of the defendant's internal operation, and the fact that the sale of the software, Yuanwang's special business seal was stamped on the customer's receipt and that all proceeds were entered in Yuanwang's accounts proved that Yuanwang Company should be held responsible.

How To Determine the Damages Caused by the Infringement

How much the defendant should compensate the plaintiff for economic losses was another focal point of dispute between the two parties.

The plaintiff's legal representative, Yu Bin, in giving the court an explanation for seeking more than 186,000 yuan in damages, said, we expect the software to have a five year economic life, and during this period, the software should generate substantial economic benefits for its owner. Because of the defendant's infringement, we have already incurred economic losses and expect to continue to incur more losses from sales in the next three and a half years.

The defendant flatly rejected the idea. Li Dazong, attorney for the defendant, said the defendant has only sold two packages of unFox worth 720 yuan, and Heima Products Division has ceased its unauthorized act; the plaintiff has regained control and therefore the damage should be limited to actual loss, or 720 yuan. Furthermore, unauthorized use of other people's copyright does not actually cause the owner to lose his rights, and it is unreasonable to seek so much compensation while the owner still has the copyright.

Ye Lin, attorney for the plaintiff, sharply refuted this argument saying: "The defendant proceeded to sell the decoded software; this made the software widely available. The defendant thinks that even if the plaintiff has lost the market, it still has the software's copyright. But may I ask, does the law protect all rights or only the profit generated by such rights? If the defendant's release of the software means everybody can get hold of a copy of unFox, then what good is the copyright? The 186,000 plus yuan we seek in damages is already a lenient figure."

When both sides refused to give in, it meant there was no room for compromise or mediation. Since there was no precedence and the law was unclear, and in order to assess reasonable damages, the judge in charge of the case consulted several computer experts and jurists in an effort to learn more about computers and foreign experience in such matters, and a special symposium was held to discuss the topic and to solicit ideas from experts. After some serious studies, it was decided that it would not be appropriate to adopt the developed nations' method of making the guilty party pay damage for the software's entire economic life, because the Chinese software market was still at its initial stage and there was

no orderly cycle; nor should the damages be limited to lost sales, because this no doubt would be indulging the violators.

Then how should the actual damage be assessed? Based on a court-commissioned audit report on the actual sale of unFox software prepared by Zhongguancun Village Auditing Office, it was decided that the maximum monthly sale of the software was 33 sets (in September 1992) and on that basis, the sales volume from October 1992 to the day of the court decision was deemed to be 33 sets a month, and deducting other factors which might objectively affect the plaintiffs sales or reduce actual sales (such as holidays between New Year's and Spring Festival) and multiplying the amount by the average unit sale price, the result was taken to be the plaintiffs actual economic loss.

Why was the damage computed up to the day of court decision? The presiding judge explained that because when the court made its decision, it had already been proven that the defendant had ceased its act of infringement. If the plaintiff should discover other acts of infringement, it could bring other lawsuits.

The Defendant Lost the Case and Also Faced Civil Penalties

After three and a half hours of court hearing, Haidian District People's Court finally made the following decisions based on relevant regulations under the "Provision on Computer Software Protection":

1. From the day this decision takes effect, the defendant, Beijing China Scientific Institute's Yuanwang Technologies Company, shall stop the copying and sale of "unFox 2.1 Reversed Translation and Editing Doctor Version 2.1" computer software.
2. The defendant, Beijing China Scientific Institute's Yuanwang Technologies Company, shall pay the plaintiff, Beijing Haidian District's Weihong Computer Software Research Institute, 46,000 yuan in damages.
3. Within 30 days of this court decision, the defendant, Beijing China Scientific Institute's Yuanwang Technologies Company, shall place a court-approved announcement on the front page of ZHONGGUO JISUANJI BAO apologizing to the plaintiff.
4. The 7,000 yuan in technology assessment fee and auditing cost shall be paid by the defendant, Beijing China Scientific Institute's Yuanwang Technologies Company.
5. The plaintiff's other demands are denied.

After the decisions were read to the two parties, the presiding judge also read a civil penalty decision to the defendant. It was the court's decision that Yuanwang Company had violated the "Provision on Computer Software Protection." To protect the development of computer software products and maintain order in the market for software products, civil violations should be

censured, and according to the pertinent articles under the General Principles of the Civil Law, the defendants copy of the software was confiscated and the defendant was fined 10,000 yuan.

Perhaps because it had time to think about its own action, the defendant did not appeal the court decision when it was legally free to do so, and it even took the initiative to pay the entire amount decided by the court together with all fines imposed.

Legal Protection of Intellectual Property Rights Is Still an Arduous Process

This first computer software copyright infringement case that attracted so much attention has come to an end. It has prompted many to give the case serious thought. Efforts to give legal protection to intellectual property rights not only will greatly encourage the public, especially the intellectuals, to invent and to create and will promote the development of society's productive forces, but it will also become an important factor in international political and economic exchange which should not be overlooked. After more than a decade of hard work, China has set up a fairly comprehensive intellectual property rights legal protection system. People are more aware of the law now, but all kinds of violations of the law still exist. This computer software infringement case is an example. Today, as China becomes increasingly open and turns more to the outside world, how to legally protect intellectual property rights is still an arduous task.

AGRICULTURE

GATT's Potential Impact on Agriculture

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[Article by Zhang Wenbao (1728 2429 1405): "GATT Restorations: Real Choices for China's Rural Reform and Development"]

[Text] The time is not far off to restore China's status as a GATT signatory. This will have far-reaching effects on the intensification of rural reform and the acceleration of rural economic development.

For a long time, China has practiced a planned economic control system apart from GATT and separated from the great revolving international economic system. Restoration of China's GATT signatory member status means that we will again enter the international economic operating system. We will take part in the international division of labor, and we will enjoy all the rights that members of the international family should enjoy and the obligations they should bear. This offers a rare opportunity for accelerating the development of China's economy. Nevertheless, because of longstanding system impediments, a substantial difference exists between the administrative

system and operating mechanism of China's national economy and GATT principles. Reform of the existing planned economy system, accelerating movement toward a market economy to narrow this gap, is an important task of economic system reform today.

Agriculture is the basic industry in the national economy; thus, restoration of China's GATT signatory status will have a major impact on agriculture and rural villages. It is bound to quicken the transformation from the old planned economic system to the new market economic system. It will speed up the overall development of the rural economy, and rapidly mesh the administrative system and the economic mechanism with the international market. For institutional reasons, and because of the state of development of China's agriculture and rural economy, China will face some grim challenges following "restitution." One might say that challenges and opportunities, difficulties and deliverance will exist together.

I. Impact on Agriculture After the Return to GATT

(A) Benefits for the Development of Agriculture

1. Return to GATT will help open China's agriculture to the outside world. Differences in domestic and foreign markets and resources will help restructure China's agriculture in a rational way. Thus, China's agricultural production will become closely linked with the world agricultural products markets for greater comparative benefits. 2. Return to GATT will help introduce foreign science and technology, capital, and management experience, transform traditional agriculture, modernize agriculture, and speed up the transformation from subsistence agriculture to commodity agriculture, and from traditional agriculture to modern agriculture. 3. It will help widen the export of China's agricultural products, particularly processed agricultural products. GATT restitution may enable China to enjoy most favored nation treatment more consistently, and to gain the general benefits treatment that developing nations especially enjoy. China can also make full use of the GATT negotiation mechanism to work with developing nations concerned in putting forward China's position and point of view about trade in agricultural products. China will be able to oppose the agricultural products trade barriers and export subsidy policies of developed nations, safeguard the interests of developing countries, improve conditions for competition in the export environment, and improve foreign exchange earnings. 4. GATT restitution can promote the rapid development of China's industry and increase economic returns. It can help improve the unequal trade that has long existed between industry and agriculture; it can lighten agriculture's burdens, and it can accelerate the change from agriculture supporting industry to industry supporting agriculture. 5. The GATT mechanism can be

used to propel thorough reform of agriculture to spur the steady transformation from a planned economy to a socialist market economy.

(B) Disadvantages to the Development of Agriculture

1. In the long-term, China is a heavily populated country in which per capita land resources are limited. The basic goal of China's agriculture is self-sufficiency in food production. China does not have the means to become an exporter of principal agricultural products such as grain. 2. During the near term, i.e., for the next decade, China's agricultural production costs will increase 10 percent each year. Prices of China's main grain crops today are higher than the international market price. Furthermore, the prevailing import duty on these products is zero, import volume being controlled entirely through quotas and licensing. If nontariff measures are canceled following GATT restitution, these products will face a battering from the international market. 3. Some products such as natural rubber, wool, sugar, and vegetable oil, which frequently take a pounding despite the high protection accorded them, will face even greater dangers from the reduction of tariffs after GATT restitution. 4. The balance between domestic supply and demand for agricultural products will come under attack. With expansion of the import and export trade, and increase in domestic demand following GATT restitution, as well as the influence of domestic and foreign market price factors, the relationship between supply and demand will be adversely affected. Overall balance, the balance between one area and another, and the balance between one product and another will be impaired. 5. Protection of agricultural products will increase the national treasury's burdens. Since most of China's agricultural products do not enjoy a competitive advantage, they will have to rely on state protection for a long time to come. However, the main state protection measure used is government fiscal subsidy, which is based on large financial resources. Economic Cooperation and Development Organization statistics show agricultural trade subsidies of \$80 billion, \$50 billion, and \$40 billion respectively each year for the EC, Japan, and the United States. A change from trade protection to fiscal subsidies for agricultural products is bound to increase the nation's fiscal burden.

(C) Products of Various Industries That Are Likely To Take a Pounding

The farming industry: Grain and oil-bearing crops such as wheat, paddy (rice), corn, sorghum, soybeans, and rape seed (indirectly affected), citrus fruits, rubber, and sugar crops (indirectly affected). The livestock industry: wood and full fat milk powder. The aquatic products industry: prawns, kelp (indirectly affected), and freshwater fish (indirectly affected). Township and town industries: vegetable oil processing, carbonated beverages, and some electromechanical and chemical industry-associated products.

II. Orientation for Long-term Readjustment of Protection Measures and the Agricultural Products Structure

(A) Protection Measures That GATT Regulations Allow

The above analysis shows that restitution of China's status as a GATT signatory nation will affect some of the country's agricultural products; however, certain GATT provisions—exceptions for international balance of payments, exceptions for nascent industries, exceptions for tariff alliances and free trade zones, exceptions for security, support provisions, and particularly certain provisions applying to developing countries—also provide a favorable basis for the protection of China's agriculture.

So-called support provisions mean that when a sudden large-scale increase in imports causes serious losses for a specific industry, such as operating under capacity, labor unemployment, huge decline in interest rates, or losses, interim import restrictions may be imposed to provide protection. However, the industries concerned are duty-bound to restructure. Emergency support measures last one to two years, or for as long as four to five years. Thus, we can invoke protection measures for products such as wool, rubber, and oil-bearing crops that may take a rather severe pounding. We can adopt so-called temporary import restrictions, meaning, we can retain import licensing and import quotas for a certain period. Of course, during the period when we are imposing such restrictions, we have an obligation to remove the barriers within a limited period.

Provisions granting favored treatment to developing nations include allowing greater elasticity in their tariff system, not requiring that they give equal trade concessions to developed nations, allowing subsidization of exports for a limited period, allowing them to grant tariff concessions among themselves without granting concessions to developed nations, and enjoyment of the general benefits system. In view of the favored treatment that GATT accords developing nations, we need not make great tariff concessions, nor need we apply different tariff rates to goods coming from developed nations and developing nations.

(B) Strengthening China's Agricultural Protection Measures in Light of International Agricultural Product Protection Policies

International trade in agricultural products is an important integral part of world trade. Both developing nations and developed nations adopt certain measures to protect international trade in agricultural products. This is particularly the case for developed nations such as the United States, Japan, and the EC. Agricultural product trade issues used to be outside GATT's purview. However, with the development of international trade, since the last Tokyo round of talks, agricultural product issues have been placed on the GATT negotiating agenda. In the current Uruguay

round of talks, the agricultural products trade issue has become the focus of negotiations.

Agricultural products international trade protection policies of the various nations of the world show a general application of both tariff and nontariff measures. Nontariff measures are the most common by far. A conspicuous example is Japan's protection of rice imports. Mostly price supports are used to encourage agricultural product exports. Government provides a certain amount of financial support to lower export prices so as to maintain competitiveness with similar products. By taking over more of the international market, peasant employment and economic returns for one's own country are protected. Governments also provide support in many other ways, such as through bank loan interest rates, tax measures, building of agricultural infrastructure, agricultural research, education, and the spread of agricultural technology to provide domestic agricultural production a fine environment for development. When a relative glut of agricultural products occurs for a certain period, the government both acts to encourage exports and employs subsidies to take land out of cultivation. This reduces the total supply of agricultural products, thereby keeping supply and demand in balance for the maintenance of price stability.

China will have to adapt to a new situation following GATT restitution. It will have to adjust agricultural policies somewhat, focus on internationalizing Chinese agriculture, form a new economic mechanism and management mechanism, and boldly orient toward international markets. We will have to improve our own development capabilities and our ability to compete internationally, and we will ultimately have to dovetail and unify domestic and international markets.

First is improvement of China's agricultural products import tariff system as GATT requires. We must build a reasonable nontariff protection system within the general GATT framework. Nontariff methods that directly violate GATT principles will have to be abolished and replaced with tariffs. Unreasonable tariffs will have to be lowered gradually. We must firmly maintain the tariff and nontariff measures that conform to GATT exception clauses, making appropriate allowances as future changes in the situation warrant.

Second, the former direct fiscal subsidies to support foreign trade enterprises' exports can be shifted to the building of bases to support agricultural product exports. Where agricultural products export bases already exist, they should be further improved and equipped. In addition, a number of new production bases for agricultural product exports should be built as new international market demand requires. Building of agricultural product export production bases will have to be included in national development plans and annual plans as is the case in the building of commodity grain, commodity cotton, and commodity hog bases. The existing administrative system for base construction is in need of reform. This reform should be meshed with reform of the farm products import-export control system to increase China's agricultural products export capability and gain a greater international market share.

Third, various laws, rules, and regulations, such as a "Basic Agricultural Law," and an "Agricultural Investment Law" should be enacted as quickly as possible to bring investment in agriculture under the law. The percentage of China's annual investment in capital construction devoted to agricultural products should be increased, particularly that portion of investment outside budget. Local governments' actions, in particular, need regularization. Under the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, the central government should take care of central government matters, and local governments should take care of local government matters.

Fourth, China must establish a macroeconomic regulation and control system to balance the production and marketing of major and staple agricultural products, to maintain balance between production and demand for major and staple agricultural products and to keep prices stable as well. China is a large, backward agricultural country in which the amount of land per capita is small and ability to supply all agricultural products is weak. Meeting rigid demand from a population of 1.2 billion is very difficult. Maintenance of aggregate balance in agricultural products is an important function of governments at all levels, and one that cannot be taken lightly. The country's various principal agricultural products reserve systems need improvement. Various kinds of risk funds must be set up, and agricultural products support policies must be put in place. While decontrolling markets and prices, effective macroeconomic regulation and control must be used to ensure that the production of farm products continues to increase to satisfy basic needs for population increase and a rise in the standard of living, and for international trade. While establishing a system for the regulation and control of quantity, the state must also establish an effective quality inspection and supervision system to ensure that products meet international standards and are able to compete in international markets. This will put China's agricultural products on the road to premium quality and high returns.

Fifth, for imports and exports that come under too severe attack, the state should institute an effective subsidization system or other support measures. Wool production is a case in point. Since the beginning of reform, new breeds of sheep and new skills have been imported that have produced a rise in the level of production. Nevertheless, by comparison with foreign products, China still has a very long way to go. The government should emphasize financial support for improvement of agricultural livestock breeds, improving the market competitiveness of Chinese wool by accelerating breed improvement, raising the general level of the country's wool production, and narrowing the difference with foreign products. Another case in point is China's rubber production for which natural conditions are markedly poorer than in southeast Asia. In addition, China's rubber tree varieties are out of date, making it very difficult to catch up

with international standards within a short period. Most of the major vegetable oil-producing nations of the world have also solved very well the "twin low" problem, but China still lags behind. Catching up with international standards will take time. Time and investment will be needed to solve these technical problems. The state should provide needed fiscal, loan, interest rate, and tax support for the production of these products. It should encourage improvement of their quality and standards to enable them to compete with similar products in the international market sooner. Where changes in the production structure are required, the state should also provide some working capital support.

Sixth, the government should continue to provide more fiscal support to agricultural infrastructure, agricultural research and education, to the building of an agricultural technology promotion system, and to education for the spread of agricultural techniques. In view of the current heavy government financial burdens, and the cut in sources of operating expenses to one agricultural agency after another while reforming agricultural organizations everywhere, governments at all levels should emphasize that reduction of fiscal support for agriculture is not to be a reform goal. They should act in the spirit of the Eighth Plenary Session of the 13th Central Committee to increase year-by-year state support for agriculture as it develops. Foreign countries have plenty of experience in this regard that we should make active efforts to obtain. Without a system for agricultural research, education, and promotion, agriculture cannot be modernized, and "three high" agriculture simply cannot be realized. The gap between China and other countries will get wider and wider.

(C) Medium and Long Term Readjustment of the Orientation of the Structure of Agriculture

The overall orientation for readjustment of the structure of Chinese agriculture is toward high yields, premium quality, and high returns, aggregate balance, and the dovetailing of domestic and international markets.

Grain: China is a net grain importing country. To satisfy the need for grain that population increase and a rise in the standard of living poses, aggregate increase in grain production must be maintained. China, with a huge population and very great aggregate demand for grain, cannot rely on imported grain to solve the subsistence needs of its population of more than 1 billion. However, market economy principles require substantial changes in the make-up of the country's grain production, notably optimizing grain varieties while remaining able to increase total supply. Grain production capacity cannot decline. The future goal is to increase the scientific and technical component in agricultural production. This includes the use of superior breeds and varieties, advanced growing methods, improvement of plant protection techniques, reducing natural disasters, and mounting a major effort to increase yields. At the same time, reduction in the amount of the grain growing area

must be tightly controlled, and the reclamation of new grain fields must be steadily increased. Grain production capacity must be increased both by using existing resources better and by developing new ones. While ensuring steady increase in total supply, the crop pattern should be adjusted as necessary and crop quality improved. The area sown to early long-grained nonglutinous rice should be reduced and the area sown to short-grain nonglutinous rice increased. In addition, production of grain crops suitable for export should be increased as international market demand and China's natural resources warrant. In the future, China's grain production should be primarily for self-sufficiency, but some grain should also be produced for export, for use in evening out fat and lean years, and for aggregate balance. However, different development strategies may be applied within different areas. In coastal areas, for example, import substitution, resources exchange, and differential development may be the approach taken. There is no need to seek self-sufficiency.

Cotton: China's cotton imports and exports are basically in balance at around 300,000 to 400,000 tons a year. Analysis by the authorities concerned shows no fundamental change in this pattern following GATT restitution. Reentry into GATT will help to develop the country's textile industry; thus, China will continue a development strategy that encourages both cotton production and rational imports and exports. Mostly, China will have to continue to stabilize and develop the building of commodity cotton production bases, and improve both cotton quality and economic returns. In the process of promoting "two highs and one premium," the development of low phenol cotton, using cotton in multiple ways, improvement of overall economic returns from cotton growing, and research on new varieties suited for textile imports should all be emphasized. The cotton commodity circulation system needs reform, reforms leading to gradual decontrol of markets and prices. The state should institute a cotton price stabilization and price support system, and it should establish and perfect a cotton reserve and a production-risk fund system.

Oil-bearing crops: The building of commodity oil-bearing crops bases, improvement of oil-bearing crop production conditions, widening of the scale of oil-bearing crop production, and regional growing and intensive production should be accelerated. These measures should form the basis for lowering production costs, improving economic returns, and narrowing the cost difference between China and other countries. More inputs of science and technology should be made to develop premium oil-bearing crop production. Major efforts should be made to promote "twin low" rape seed production, and all commodity oil-bearing crop bases should become "twin low" producers. The state should make a greater investment in promotion of "twin low" rape seed production. It should change the oil-bearing crop pattern to grow more peanuts and sesame seeds that sell for a higher price, procure better returns, and that offer good export prospects.

Sugar-bearing crops: Formulation of reasonable import and export tariff rates. Currently, China's sugar import tariff rate is 30 percent, much lower than Japan's or the United States'. In 1988, Japan's sugar import tariff rate was 106 percent, in addition to which a regulation tax and a stabilization fund tax were levied. The United States' tariff rate was 80 percent in addition to a regulation tax and a support tax. In view of this situation, China's import tariff rate should not be lowered if the country's sugar production is to be protected. In addition, a minimum protection price policy applies to the sugar procurement price. The policy of "linking sugar and grain" should continue. The state should continue to support the building of sugar production bases. It should help Guangxi and Xinjiang develop new sugar production bases. More scientific research on cotton production should be conducted in an effort both to increase yields and sugar content.

Fruits: (1) Full use of GATT's protection mechanism, enacting and perfecting applicable technical and quality standards as soon as possible, and consolidating them through legislation. (2) Haste the development of name brand, premium quality, special, and new fruit production. Readjust fruit production bases to increase the number of premium quality, high return fruit production bases. Make full use of the special geographical position in the semi-tropics of China's southern provinces for the development of tropical and semi-tropical fruits. Strive to widen exports of these kinds of fruits. (3) Change taxation policy for special products from the domestic farming and forestry industries. The present 15 percent farming and forestry special products tax and the 10 percent local surcharge, as well as the numerous other local taxes bearing different names, produce a 20 to 30 percent tax on fruit. The country should further reduce these farming and forestry special products tax rates to bring them in line with production.

Wool: In the revamping of wool production, it has mostly been the state that has spent a lot of energy. It has increased investment to transform China's wool production, to improve quality, and to change processing and production patterns. Production bases now do crude processing to increase economic returns. The state should set up model wool production bases to integrate the building of grasslands, the spread of technology, level-by-level control of wool, scientific inspection, combing, washing, and processing, and either direct turnover to industry or auctioning of the wool.

Dairy products: China is a net importer of dairy products, but Chinese dairy products production costs are high and quality is poor. Thus, they are at a competitive disadvantage internationally. For a long time to come, China will have to continue to import dairy products to make up for the lack of domestic production. Tariffs on most imported dairy products should not be greatly lowered, and the dairy products health quarantine system should be further perfected. More money should be invested in the dairy industry, new technologies should be applied, a fine breed breeding system should

be developed, per unit yields should be raised, more product lines should be offered, product quality should be improved, and both domestic and foreign markets should be opened up. In addition, production, processing, and sales should be part of a continuous process, and processing equipment and designing technology should be improved for greater enterprise economic returns.

Rubber: Changes in rubber production should be geared toward the best product mix, prompt replacement of old trees, and the planting of improved varieties. The location of the rubber industry should be changed as natural resources warrant, places not suited to rubber production being used for the development of crops such as tropical and semi-tropical fruits instead of rubber. A rubber wood processing industry and other associated processing industries should also be developed.

Aquatic Products: The orientation for readjustment of the aquatic products industry is continued development of a deep sea fishing industry and a large water surface breeding industry. Economic returns should be raised by lowering production costs to increase market competitiveness. Active efforts should also be made to adjust the kinds of fish, major efforts devoted to the development of well-known, premium, special, and new kinds, to the importation of fine varieties from abroad, and to the development of a domestic freshwater fish rearing industry. The state should lower the special aquatic products tax rate. Enterprises should hasten the influx of foreign capital, conduct technical transformation, spread aquatic products processing techniques for keeping aquatic products alive and maintaining freshness, and increase product added value. The aquatic products industry has tremendous potential. After returning to GATT, development of the aquatic products industry will rise to a new level to enter a new stage.

III. Intensification of Reform for Earliest Meshing of Domestic and International Markets

The 14th party congress set the goal for reform of the nation's economic system as establishment of a socialist market economy. The goal model for this reform is basically in keeping with GATT regulations. Restitution of China's GATT signatory nation status means that we will reform the nation's existing economic control system in accordance with the principles and the framework of GATT, dovetailing it with the international market as quickly as possible. Reform of the national economic macrocontrol system should be conducted according to this principle, and the same is true for rural reform.

(A) Further Decontrol of Agricultural Product Prices and Operating Channels

Today, most agricultural product prices in China are determined by the market; however, part or all of price setting authority for hot-selling goods that have a bearing on the national economy, the people's livelihood, and the earning of foreign exchange, such as grain,

cotton, oil-bearing crops, sugar-bearing crops, pork, tobacco, and silkworms is in the hands of the state. Some of these products are a state monopoly. This is not in keeping with GATT principles, and it also very greatly limits development of these products. According to the laws of a market economy, prices are formed mostly through a process of market exchange. Such an operating mechanism requires that the state give up its agricultural product direct price fixing authority, depending on markets to set prices. By using economic means for indirect intervention in markets, the state fashions a mechanism for macroeconomic price regulation and control at a higher level. In China today, pork prices have been largely decontrolled, a small number of places still keeping restrictions. A decision has been made to decontrol sugar and oil-bearing crop prices, and this is in process of being done. Authority to set prices for the procurement and storage of 50 million kilograms of grain, and price setting authority for cotton, tobacco, and silkworms remain in the hands of the state. The orientation of price reform is toward complete decontrol of grain procurement and sale prices. At the same time, reform of cotton, tobacco, and silkworm procurement and sale prices is to be speeded up. The market is to set the price of cotton within two to three years. Procurement and sale prices for tobacco and silkworms will still be set by the state, enabling tobacco growing peasants, silkworm raising peasants, and production and processing enterprises to form a community of interests for the founding of farming, industry and trade blocs in which production, supply and marketing are integrated, and setting up a new distribution mechanism between enterprises and peasants. A monopoly business or monopoly sales system is bound to produce monopoly prices and monopoly profits. This is not in keeping with the fair competition principle of a market economy, and it also contravenes GATT principles. Nevertheless, the country's general welfare makes destruction of the monopoly system difficult for some products. This means that we will have to establish new production and marketing organizations to regulate the relative interests of producers and marketers, and to redistribute benefits among the state, enterprises, and the peasants to attain the goal of stirring peasant interest in production, and protecting the legitimate earnings of the peasants. At the same time, we will have to incline toward the basic principles of GATT. Of course, the ultimate goal of reform is complete decontrol of agricultural product prices, the market deciding all prices and the state influencing price formation through market regulation and control.

With decontrol of agricultural product prices, a pattern of multi-channel commodity circulation will emerge. The pattern of state-owned and cooperative commercial channels domination that has existed for several decades is being dismantled. For historical reasons dating back many years, the emergence of other operating organizations has been extremely slow in coming. The peasants have yet to really get into the commodity circulation field. After buying up all the farm crops at low prices,

state jointly operated commercial enterprises and large individual dealers sell them elsewhere at high prices, the profits flowing into the hands of these entrepreneurs. No effective middleman organization exists between the scattered peasant producers and the centralized large commodity circulation markets. Brokers and agents have been late in developing. Producer benefits are tremendously eroded. Multi-channel dealings in farm products remain in flux. In the future, state jointly operated commercial enterprises will no longer possess a so-called "market protection" function. Their monopoly position will be shaken, and like other business organizations, they will have to enter into fair market competition. At the same time, the state will adopt more liberal policies to pave the way for the entry into the commodity circulation field of other than state-owned enterprises. In particular, it will foster peasant commodity circulation organizations, and develop brokerage, wholesale, and agent organizations in which production and marketing are linked. These commodity circulation organizations will not only have to enter the domestic market but international markets as well.

(B) Reform of the foreign trade system to integrate domestic and foreign trade. China's foreign trade system has been well known for many years for its monopoly, insulation, and conservatism. It might be called "water-tight and impenetrable." The opportunity to demolish the foreign trade corporations' exclusive monopoly on international trade has arrived. Domestic organizations dealing in foreign products should take international markets as their goal and common international practices as their standard. They should actively set the stage and improve their ability to move into international markets with all possible speed. The state should reform the foreign trade system at once to allow more domestic trading enterprises to enter the international market. Those not prepared to do so should be given authority to import and export regardless the character of their ownership. In drawing up foreign trade policies, enterprises both inside and outside the foreign trade system should be treated in the same way. Domestic trade has to be meshed with international trade. When the state draws up import-export plans, it must consider the common needs of both international and domestic markets, and relate this to domestic production capacity. A multi-component market entity's entry into international markets will play a major role in expanding China's foreign exchange earnings from farm product exports, in bringing in sophisticated technology and management, and in raising the level of modernization of China's agriculture.

(C) Founding and perfection of a new market system. China's agricultural products market infrastructure is extremely outmoded. It is far from able to deal with the new situation of multiple channels of commodity circulation following decontrol. Because the national agricultural products control system retains the pattern of separation among production, supply and marketing, and between domestic and foreign trade, which characterized the planned economy fashioned during the

1950s, production and marketing are disjointed, domestic and foreign trade are disjointed, and the international and domestic markets cannot be unified. This situation seriously impairs the building of an agricultural products market system. Both the tangible and intangible market are not sound. Establishment and perfection of an agricultural products marketing system is urgently needed. An agricultural products market system based on the market economy approach should be designed, and the emphasis of reform should be on the establishment of a market system in which wholesale markets and futures markets are the hub. Diverse kinds of commodity circulation based on peasant commodity circulation organizations should be fostered; a system of laws, rules and regulations, principal of which is a "wholesale market law," should be drawn up; and a system for publicizing national farm product prices and production and marketing information should be established. Wholesale markets are a key component in a farm products market system, and spot trading—the most direct form of trading—is suited to agricultural products production and circulation in China at the present stage. However, with development of the market economy and the internationalization of domestic markets, futures trading is bound to occur. Price determination and risk mechanisms are the main feature of futures trading. Following GATT restitution, more foreign farm products are bound to enter China's domestic market, and Chinese farm products will also gain a greater share of international markets. Domestic farm product prices and international farm product prices will become closer and closer. Futures markets are the bond that link domestic and foreign markets; they are the carrier organization for the internationalization of farm product prices. Futures markets, wholesale markets, and retail markets; product markets, key production element markets, and information markets; producer area markets and marketing area markets; tangible markets and intangible markets, etc., will together shape a new farm products market system for guiding peasants entry into the market economy.

Experts Say GATT To Benefit Grain, Oil Trading

93CE0687H Beijing JINGJI CANKAO BAO in Chinese
7 Jun 93 p 2

[Report by Ye Qiyuan: "Experts of China Food Grain Economics Society Believe: 'China's Return to GATT Will Promote China's Foreign Trade in Grain, Edible Oil'"]

[Text] Some experts in the China Food Grain Economics Society believe that China's return to GATT as a signatory is conducive to importing and exporting its grain and oil.

China is one of the world's main grain importers. Meantime, it is a nation that traditionally exports soybean. China also exports some millet and rice. Its volume of exports of tung oil, peanut and sesame also makes up a considerably large portion of the world's

total volume of trade in this connection. After China rejoins GATT, it will be able to trade in more diversified ways, and expand its imports and exports of grain and oil on the world market. This will help China play a more important role in carrying out international trade. In addition, to make China's grain and oil more competitive on the world market, we must develop high-quality and readily marketable products. This will impel China to readjust its product mix in agriculture and the varieties of grain and oil products and to develop its agriculture with high efficiency.

China imports and exports grain. Actually it imports more grain than it exports. In general, there should not be any large impact in the near future after China's return to GATT. However, different varieties of grain may create different impacts at different times. China mainly exports rice, millet, soybean and some minor cereal crops. China's return to GATT will be conducive to expanding its exports, thanks to the preferential treatment given by GATT to its signatories. As for imports, we must pay attention to the following three aspects:

1. If the United States reduces subsidies on wheat exports, the price of wheat imported into China will rise. This will increase China's foreign exchange expenditures to subsidize wheat imports.
2. Grain prices at home and abroad change from time to time. If the domestic price of grain increases by a much bigger margin than that abroad, domestic grain prices will become higher than that of imported grain. This will bring about grain imports above the planned targets and adversely affect the domestic market.
3. The rate of exchange changes from time to time. If the rate of exchange further drops, the cost of importing grain will increase.

In recent years, China has imported more vegetable oil products than exporting them. In addition, it imports such oil products in large quantity. The imported oil products have already seriously affected the domestic market. The reason is that aside from the advantages of imported vegetable oil in price, variety and quality, there is no state plan to control the import of edible oil. Any unit authorized to import and export can import edible oil. Special economic zones, border trade departments, joint ventures and other enterprises are making use of their import and export rights, their tax exemption and reduction preferential treatment, and the foreign exchange retained for their own uses to import edible oil in large quantity. After China's return to GATT, imported vegetable oil will affect the domestic market even more seriously, because prior to China's re-entry into GATT, it may rely on customs tariffs to protect and regulate the domestic market. After China rejoins GATT, we must first of all reduce customs tariffs. In exporting vegetable oil, China mainly exports tung oil, peanut and sesame. All of them are China's traditional export products, and we have the advantage

of abundant natural resources. Right now, the domestic price for such products is quite low. This benefits our exports. After we rejoin GATT, we may further expand our markets abroad.

Grain, Edible Oil Import Export Group Formed

93CE0687F Beijing GUOJI SHANGBAO in Chinese
19 Jun 93 p 1

[Article by reporters Cao Shoujiang and Wang Yan: "China National Cereals, Oils and Food Import and Export Group Officially Established"]

[Text] With the approval of the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation, the China National Cereals, Oils and Food Import and Export Group was officially founded on 16 June. Zhou Mingchen, President of the China National Cereals, Oils and Food Import and Export Corporation, was appointed chairman of the group's administrative committee.

In July 1992, the relevant ministry and commission of the State Council approved the establishment of the group with the China National Cereals, Oils and Food Import and Export Corporation as the core enterprise. After nearly one year of preparations, the group which is composed of over 170 enterprises and institutions was officially founded. With the aforementioned corporation as the core, this group is closely related to the 67 enterprises at home and abroad which the corporation has either sole proprietorship or shares. It is also affiliated with 34 other enterprises and joint ventures which the corporation has either investments or shares. It is also supported by the import and export corporations, production and trade enterprises and scientific research institutes in various provinces, municipalities, autonomous regions and cities with provincial-level economic decision-making authority with which the aforementioned corporation has maintained a steady relation of cooperation for a long time. This group is a multi-level socialist entity of business corporations.

It is reported that after the founding of the group, it will regard trade as its major task, the industry as its foundation, the world and the domestic markets as its targets; and take full advantage of all its member units in accordance with China's laws and policies and on the basis of the principle of voluntary participation, equality, mutual benefit and common development. It will strengthen its efforts to combine trade with industry, agriculture and the introduction of new technology; help trade, industrial, financing and technological departments to coordinate with each other; and quicken its pace to promote industrialization and internationalization. These efforts are aimed at building the group into a large, comprehensive, multi-functional and transnational enterprise in the world.

As the core enterprise of the China National Cereals, Oils and Food Import and Export Group, the China National Cereals, Oils and Food Import and Export

Corporation is a large foreign trading enterprise with a 40-year history in importing and exporting cereals, oils and food. Its annual volume of imports and exports totalled \$5.9 billion in 1992. It ranked the second in China's 500 largest import and export enterprises and its per-capita value of imports and exports led other trading enterprises in the nation. It also has 116 joint ventures in China under its administration with an annual business volume of 4.5 billion yuan. It controls 64 overseas enterprises with an annual business volume of \$4.5 billion in 1992. The vigorous development of this corporation has laid a solid foundation for the establishment of the China National Cereals, Oils and Food Import and Export Group.

It is reported that with its member enterprises exploiting their own advantages for mutual benefit and prosperity, the China National Cereals, Oils and Food Import and Export Group will definitely demonstrate its overall superiority and become more competitive than ever before. By taking full advantage of its superiority as a group, it will be able to help its member enterprises cooperate each other in financing, developing joint operations and investing; accelerate their technical progress; raise their production quality and upgrade their products; and expand their exports. It will also work hard to train qualified managers and administrators for its member enterprises, and make use of its information sources at home and abroad to provide consultations for its member enterprises.

1993 Cotton Planting Area Decreased 20 Percent

93CE0687C Beijing JINGJI RIBAO in Chinese
20 Jun 93 p 1

[Report by Chai Mao: "Cotton Situation Brooks No Optimism"]

[Text] The decline in cotton production this year has somewhat stopped, but we still should not become optimistic. According to an estimate made at a meeting sponsored by the Ministry of Internal Trade not long ago to analyze the situation in China's cotton production, the total area planted with cotton this year is about 82 million mu, a drop of 20 percent, of which the area planted to spring cotton decreased and that of summer cotton increased. How to finance the purchase of this year's cotton is an issue that demands prompt solution.

Due to last year's bumper harvest in Jiangxi and Hunan provinces, cotton farmers in these two provinces are more enthusiastic in growing cotton this year. The area planted with cotton is larger this year over

1992. Hit by natural disasters and lower yield last year, cotton farmers in Hebei, Shandong and Henan are not so enthusiastic in growing cotton. The total area planted with cotton in the three provinces declined by about 16 million mu this year.

Right now, the existing problem in cotton production is that the area planted with cotton remains imbalanced. Particularly, a drought prevailed in North China during the spring cotton sowing period, and the density of cotton bollworm eggs is higher than that last year in some cotton-growing areas in Hebei and Shandong. Therefore, we must strengthen leadership over cotton production.

Sales, Production of Farm Machinery Declines

93CE0687G Beijing JINGJI RIBAO in Chinese
21 Jun 93 p 5

[Article by China Information Center for Supplies: "Sales, Production of Agricultural Machinery Declined in 1993"]

[Text] According to information provided by the Ministry of Machine-Building and Electronics Industry, the sales and production of farm machinery this year will decline compared to 1992. As seen from the situation in production from January to April 1993, output of four types of major farm machinery rose, and that of six types dropped. Those that increased include internal combustion engines, international combustion power generator sets, agricultural transport vehicles, tractors and internal combustion engine parts. Those on the decline include large and small tractors, tractor-drawn seeders, combine harvesters, cutter-rowers and large trailers. The market situation shows that most machinery products sold well in 1992. This year few are selling well, most are about average, and some of them are not selling well. Those that sell well include crawler tractors, bulldozers, farm machines fitted with internal combustion engine, models 6135, 495, 490 and 485 diesel engines for agricultural transport vehicles, power generator sets with internal combustion engine and agricultural transport vehicles. Those that do not sell well include small wagons, tractor-drawn farm implements and a few models of combine harvesters. The main reasons for the decline in the sales and production of farm machinery are that large investments are needed in the purchase of agricultural motor vehicles and large and medium-sized tractors, that farm machines are only being used seasonally, and that they must be upgraded from time to time. Due to the aforementioned reasons, the amount of farm machinery that peasants like to purchase this year is far less than what they actually bought in 1992.

Hu Jiwei Discusses Democracy, Journalistic Freedom

*93CM0433A Hong Kong CHENG MING
[CONTENDING] in Chinese No 8, 1 Aug 93 pp 62-65*

[Article by Zhang Weiguo: "Discussing Democracy and Journalistic Freedom With Hu Jiwei"]

[Text] On the whole, the press is not free in China—first, there is no freedom to report important political news; second, there is no freedom of speech regarding important political issues; third, there is no freedom to discuss important theoretical issues. In the absence of those important freedoms regarding expression, the press in China cannot be said to be free.

Hu Jiwei was formerly editor-in-chief of RENMIN RIBAO and a main proponent of emancipation of the mind and press reform when Hu Yaobang was in power. Because of his efforts to solicit signatures from members of the Standing Committee of the National People's Congress [NPC] to convene an emergency session of the NPC to dismiss Li Peng during the 1989 pro-democracy movement, he was removed from his position as deputy chairman of the NPC Education, Science, and Culture Committee and other positions and received the punishment of "being placed on probation within the party" after the 4 June incident. Although the development of democratic politics in China has remained in a trough in recent years, Hu Jiwei has become even more determined despite the adverse environment, and continues to write political commentaries to expound his democratic ideals and to launch counterattacks on the extreme left faction in the CPC in regard to their activities going against the trend of the times.

At the invitation of Professor Li Chin-ch'uan of Minnesota University in the United States, on 13 June Hu Jiwei flew from Beijing to the United States to participate in an academic symposium, "China: At a Historical Turning Point," sponsored by the China Times Center at Minnesota University.

It had been four years since I last saw Mr Hu. Mr. Hu is still very healthy and strong despite the fact that his hair has turned completely gray, and did not look tired after taking a 10-plus-hour nonstop trans-Pacific flight even though he is 76 years old. He said that he had been on night duty in the newspaper for several decades and thus was used to turning nights into days, that he was usually capable of getting some sleep if he could have a dozen or 20 minutes, he had rested during the flight, and that he was confident of being able to adapt to the rhythm of life here.

"As one may recall, in the past the CPC used exactly the idea of democracy to mobilize the people in the revolution. But after the CPC came to power in 1949, the mainland made a detour which lasted a long time. The project of reform and opening to the outside world is also faced with the task of rebuilding democracy in China. As one who has experienced all those events, you

personally experienced the different periods such as those around 1949 and around 1989. I think there must be many lessons that can be learned from all the tortuous development and reversals." As the articles published by Hu Jiwei in recent years indicate that he had focused on studying democratic theory, I solicited his views on this issue.

Discussing Democracy From the Perspective of Human Emancipation

"My current articles mostly discuss democracy from the perspectives of human emancipation and the emancipation of the human mind and the human character. As I have discovered, people like us who talk about democracy often fail to be democratic in practice and to tolerate dissent. Such behavior is against the most fundamental principle of democracy. You have the right to express your own views, but should also respect other people's right to express their views. You may exchange views, and try to persuade others through reasoning, but you do not have the right to force others to believe in your own views and do things according to your views. You may say that your own views are correct, but you should not impose them on others, asking others to recognize your views as the only correct ones, rejecting others' views, or even not allowing others to publish dissenting views or regarding others' views as heresy."

After the discussion began, Hu Jiwei revealed the mental journey that he had taken to explore democracy, through analyzing the undemocratic system, environment, psychology, and culture on the Chinese mainland. He emphasized: "Whether a view is correct or not is not determined by your own judgment but by the judgment made by the masses and objective reality. Those holding different views should conduct discussion on an equal basis. If views are different, each may keep his own view. Let the matter be decided by a joint judgment made by all. But even if my view is considered by the majority to be correct, I still should not oppress you and coerce you because of that."

After the 4 June incident, a theory has been getting currency among intellectuals both in China and overseas. According to this theory, China now does not yet have the conditions for democracy, and the quality of the ordinary people is too low—some people have gone back to neoauthoritarianism or neoconservatism.

According to Mr. Hu, such a theory is incorrect in some aspects, but is also correct in some aspects. Democracy does need certain conditions. It is not the case that any society or any people can become a democracy by just declaring itself to be a democracy. Nevertheless, it is not right that such an issue is used as an excuse as if Chinese society is still not yet a society where democracy can be practiced.

Development, I said, is uneven across China, there are economically developed regions and economically backward regions; correspondingly, in terms of cultural

development, there are also both advanced and backward regions. In view of the current successes in regard to the special economic zones, should we get some inspiration and also conduct a special-political-zone experiment, as a pioneering project, in our effort to build a democratic system, I asked?

It is all right to have such ideas, but in practice the authorities will not accept such ideas, said Hu Jiwei.

Did the breakthroughs, I said, in the provincial governor elections in Zhejiang and Guizhou this year indicate that a new force promoting political system reform had been born and developing naturally in the localities?

According to Hu Jiwei, a little careful observation will reveal that it was exactly the few leftists who got the fewest votes during this year's People's Political Consultative Conference elections. There is only such a limited amount of democracy. But the people's ability to make distinctions is not that low. If a proper scope is set, provincial governors can also be elected by the people. In August last year I went to Wuxi and Changzhou. Some entrepreneurs there said that in the past we had asked for help from the government and the CPC, but that now it was the government and the CPC which were asking for help from us.

The outside world, I said, has very keenly noticed the fact that the 14th CPC Congress limited political system reform to streamlining administrative agencies, with power getting concentrated again, and that the political reforms—including those regarding separating the party from government, decision-making transparency, and a dialogue system—started at the 13th CPC Congress were suspended. From the perspective of development of democracy, I asked, how do you view such changes?

As you mentioned, separating the party from government is no longer advocated, with power getting more concentrated than before, and this represents retrogression, said Hu Jiwei. The situation regarding consultations on elections and candidates is unbalanced. Some localities are more democratic, while other localities demonstrate a greater tendency toward concentration. Nevertheless, the activities relating to the dismantling of the planned economic system and the establishing of a market economy do represent remarkable progress. This is not only an economic issue. In the past the high concentration of power was built on the basis of a planned economy. With the planned economy being broken down, not only is there economic freedom, but also some freedom has also emerged in politics.

The Press and Speech Have Actually Exceeded the Limit Set by the CPC

I believe that press reform is an important part of development of democracy. In 1989, press reform had great momentum, and a press law was also on the verge of being born. Now, with the great momentum in respect to turning things into being regulated by the market in the commodity economy, press reform has

progressed in various aspects; but it seems that the press law has not been mentioned again. I asked Mr. Hu Jiwei to discuss this issue.

This issue also calls for analysis, he said. On the whole, there has been no change in, or relaxation of, the censorship and the restriction of speech; but the actual situation has gone beyond the limit that the CPC intends to maintain. With regard to newspaper reform, first, the weekend editions, special editions, supplements, and a few newly created periodicals were enlivened, and then, the principal parts of the newspapers themselves also were enlivened. There is now some news, and some low-level criticism and self-criticism have also occurred. In this regard, there have been some breakthroughs, and there is now some transparency. Now things have become such that those major newspapers have to support themselves by publishing a number of tabloids. At first those in charge did not approve of publishing the tabloids, and the higher authorities also regarded such tabloids as manifestations of liberalization. But slowly, the activities came to be considered necessary; and the tabloids became the major newspapers' main sources of funds and also improved the major newspapers' reputation. For instance, an important reason why NANFANG RIBAO can survive has been the work done by its weekend edition, NANFANG ZHUMO. Such changes seem to be slow sometimes, but there have also been breakthroughs in a relative sense sometimes. Take the example of the Renshou County incident. XIAOFEI RIBAO managed to report the incident. It was able to say that you had blocked the communication to the center and oppressed the peasants. Such reports seem to be criticizing an organization or a small locality, but the impression that people get is that governments can also be criticized, that the CPC can also be criticized, and that one can even expose cases of suppression of criticism.

On the whole, the press is not free—first, you do not have the freedom to report important political news; second, you do not have the freedom of speech in relation to important political issues; and third, you do not have the freedom to discuss important theoretical issues. These freedoms are the most important. In the absence of these freedoms, the press cannot be said to be free in new China. But even in regard to such issues, you cannot say that there have been no breakthroughs at all. For instance, XINMIN WANBAO, first, published stories on the "Yang family" and the reshuffling within the military; second, revealed an important internal speech made by Mayor Huang Ju of Shanghai; and third, reported Wang Dan's release from prison. No other newspapers on the mainland then dared to publish those stories, but XINMIN WANBAO published them anyway. Take another example. BEIJING QINGNIAN BAO reported in detail the developments surrounding the suicide of an extreme left professor at Beijing University who killed himself by jumping from the fourth floor of a building. Recently, an exhibition featuring Wu Zuguang was cancelled at the last moment. No other

newspapers dared to report that incident, but WENHUA BAO reported the incident anyway, saying that Wu Zuguang's exhibition had been unjustifiably cancelled. Furthermore, commentaries of a political nature are not totally absent. For instance, NANFANG ZHUMO published an article entitled "On the Nature of Dogs." It is really very well written. The author, Shu Zhan, works at RENMIN RIBAO and is, like Deng Tuo, very learned. There is not one sentence of empty talk or even one sentence characterized by putting labels on people. Nevertheless, he managed to describe the doggerel nature of the leftists in a remarkably truthful manner, by making use of his knowledge. It is an excellent piece.

With regard to political issues, my article entitled "Formulate China's Democratic Theory and Promote Democracy Building in China," for instance, was published in CHANGZHANG JINGLI RIBAO in Chengdu; and there was no trouble.

The Periodical Publishing Hsu Liangyin's Article Has Not Got Into Any Trouble

When I asked whether the periodical WEILAI YU FAZHAN had got into any trouble after publishing Mr. Hsu Liangyin's article, Hu Jiwei said that there had been no trouble. Now comrades like us and friends who advocate something are rather sensitive and believe that they would necessarily ban the publication of those numerous articles, he said. But in fact, such is not actually the case. After WEILAI YU FAZHAN published that article, some said that this article might not be tolerated; thus these people got nervous and hurriedly decided to make self-criticism. Actually, the higher authorities did not take the matter seriously. Of course, there can be several possible reasons. First, they may not read those things at all because they do not read; second, they may not be able to understand those things, and thus no one would actually interfere. There is no way of keeping control over so many newspapers and publications. How is it possible to keep control? Later, it was rumored overseas that self-criticism was made; some even said that the newspaper had been banned. But such things did not actually happen.

Hu Jiwei said: I feel that in terms of those big issues the situation regarding journalistic freedom is still not acceptable; but you cannot say that what does exist is not journalistic freedom, for at least some breakthroughs have taken place. Take the example of freedom of speech. You do not have much freedom to publish in newspapers and periodicals, but there is a tremendous degree of freedom to speak. People say everything in such public places as on trains and buses as well as on the campuses, and in the mess halls, of various universities. Two freedoms are involved here—one is the freedom to speak at will; the other is the freedom not to speak.

On the whole, in Chinese society the freedoms of the press and of speech are progressing and are trying to move forward by all means. There have been some breakthroughs regarding the freedom of the press under

the new situation, and such is the basis for true freedom of the press. Current overseas media reports in this regard are more of a hindrance than a help—something should only be done but not said.

A Xi'an Periodical Published an Article in Memory of Hu Yaobang

Some contradictions, I said, have emerged in the course of achieving breakthroughs—on the one hand the space has been enlarged and opportunities have also increased; on the other hand corruption has become a serious problem in the journalism and publishing communities, and people have even now created the following doggerel: "First-class journalists engage in business; second-class journalists engage in stock trading; third-class journalists solicit advertisements; fourth-class journalists write pieces for other publications; and fifth-class journalists write the headline stories." How can those problems be resolved in view of the development trend for the future?

Hu Jiwei said: I believe that if such things are allowed to develop, they will turn into their opposites after reaching a certain degree. Take the example of the current practice of selling articles for money. Recently, two RENMIN RIBAO journalists wrote an article on the First Automobile Plant, and the plant gave them an Audi (a car assembled by that plant with parts produced by the Volkswagen Company of Germany), which is said to be worth 170,000-180,000 yuan. Such conduct will not be able to survive, as it is corrupt. I do believe that such conduct is wrong, but that it will have some positive effect after some time for it can teach you lessons from negative examples. Some people think that others are engaged in liberalization activities, but in fact they are the most dirty people; they say that others are gold worshippers, but in fact they themselves are the real gold worshippers.

I have noticed that people overseas are paying great attention to some publications without publication numbers, which are also called "underground publications." Thus I asked Hu Jiwei whether the government authorities, pushed by the momentum of development of market economy, would be able to adopt a rational policy and to take the initiative in providing some space for their legal existence, so that China might achieve the goal of freedom of the press at a rather small cost in the future.

According to Hu Jiwei, that will be very difficult. It is up to the localities that will take actions in view of their respective circumstances. Currently, sometimes things happen totally unexpectedly. They will accomplish things about which you have not thought yet, and they will accomplish them in an excellent manner. He cited an example. Recently, a periodical, SHENGCAI YU SHENGHUO, was published in Xi'an. The first edition published an article entitled "Hu Yaobang in Shaanxi," together with page-sized photos of Hu Yaobang. The article contains detailed recollections of Hu Yaobang's

conduct—including going into the midst of the masses, showing concern over the people's difficulties, and his democratic style. The article was well received, but did not cause any attention overseas. In fact, such articles should arouse attention from overseas media. The article was published in April for the purpose of marking the fourth anniversary of Hu Yaobang's death. Nobody was able to stop such things, and as a result the article was published. Furthermore, those who publish that periodical are a group of comrades at the research office of the provincial government, and are thus completely within-system people. That periodical has a registered publication number and is entirely legal. The higher authorities criticized them for not asking for approval before publishing the article on Hu who had been a central leader. They replied: "We wrote about the period when Hu Yaobang worked in Shaanxi; at that time he was not yet a central leader!"

A Society Based on the Rule of Man Cannot Produce a Press Law

What do you, I asked, think about the fact that the press law of China which has aroused overseas attention has yet to be promulgated?

It is not possible to produce that law now, for the country as a whole remains a society based on the rule of man, said Hu Jiwei. At the outset of the efforts to formulate a press law, they intended to use the press law to control the press. I worked for the press law because I advocated using the press law to protect the freedom of the press. As a result, a conflict developed between them and me. I believed that the press law should be applicable to all sectors in the country; and that all—including leading officials at all levels—should observe the press law. They opposed allowing private newspapers. I said that people in a democratic country should have the freedoms of speech and the press. The freedoms of speech and the press should of course include the freedom to establish news organizations. Consequently, they decided not to proceed with the project in the end. The result of not proceeding with the project has been a situation of lawlessness; there is control over everything.

Many journalists, I said, were arrested and sent to prison after the 4 June incident, and it is said recently that many mainland journalists or publications have become defendants. According to the statistics of the World Commission for the Protection of Rights and Interests of Journalists, China is the country with the largest number of journalists arrested. Such things must have great disruptive impact on the news media and the freedom of the press!

According to Hu Jiwei, in view of actual developments, the situation where there is no press law is no longer tenable. For instance, there are so many journalism-related court cases, and without a press law it is difficult to handle those cases. But it is difficult to really produce a press law. Just as in the case of formulating a political party law, some fundamental systems would be involved.

The press law is a major law, and cannot be formulated in a short time. But even so, there will still be some breakthroughs. For instance, RENMIN RIBAO was formerly considered to be "supreme," but people now can sue and can take RENMIN RIBAO to court. SHEN-ZHEN TEQU BAO devoted a whole page to the feature entitled "RENMIN RIBAO Became a Defendant." This was a breakthrough, and was not easy.

Being Criticized for "Placing the People Above the Party"

I asked Hu Jiwei to discuss his current views on the issue of "people spirit" that he has raised since 1989. The idea of "people spirit" has always been criticized by the CPC's mouthpieces. I believe that the authorities' adherence to the ideology which puts the party spirit above the people spirit has objectively constrained the theoretical study of journalism on the mainland in a significant way, while the development of news media on the mainland is in urgent need of theoretical guidance.

As revealed by Hu Jiwei, he recently wrote an article, which served as a kind of reply to the criticisms of him in recent years. Hu Jiwei said: In mid-1979, I spoke to those attending the theory course at the Central Party School. When answering the question, "Is it the party or the people, in the final analysis, that is great?" I said: "Whether our party is great or not is determined by facts but not by bragging. It is necessary to let the people make the appraisal. The Tiananmen incident showed that the people were great, very great; but at that time our party was not great, because it had appointed bad people to important positions and took actions to repress the masses! Therefore, a key to answering the question of whether our party is great or not is to see how it treats the people, that is, whether it represents the people or is divorced from the people, whether it promotes the well-being of the people or harms the people, and whether it protects the people or take actions to repress the people." Facts show that our party did go through periods where it was not great as it was divorced from the people, harmed the people, or even took actions to repress the people." My basic view was that "the people are great." But they criticized me for "putting the people above the party." Such criticism exactly showed that they "put the party above the people." They criticized me for "deifying the people." But such criticism exactly showed that they "deified the party." If our party has really become one which maintains its mistakes and which refuses to correct its mistakes when they are discovered, thereby insulting its title of a "great, glorious, and correct" party and failing to accomplishing its historical missions, then the great people will ultimately create, in the course of their great struggle, another political party which is truly great. The people, as masters of the country, will entrust another party with the important task of leading the people, through a democratic process based on a constitution formulated by themselves. The people are in the highest position and supreme. My mistake did not lie in advocating the idea that "the people spirit is above the party spirit," but on

the contrary, in that I failed to more explicitly, thoroughly, and resolutely advocate the idea that "the people spirit is above the party spirit."

I inquired of Hu Jiwei whether the term of the punishment imposed on him had expired, whether any decision on him had been made, and how he had been doing in the past four years in terms of both his work and life—these had been issues with which the outside world has been concerned.

As Hu Jiwei told me, the term of the punishment expired in November last year, but there is no such a thing as restoring a party member's normal rights. But he had not made any petition and would rather just let them do as they would like. He said: Such changes also have a good aspect, that is, that because of the changes I have got rid of some routine work such as attending meetings—those completely meaningless meetings. In the past you had to attend those meetings, but now you can just ignore them. In recent years, I have had a great deal of time, and written a great deal. Of course, much of the writings cannot be published now; but it is very good to have them stored there, and they will be very useful in the future. In the four years, I have been able to soberly review the work done in the previous few decades. When a person gets old, he is able to seriously review the past and sum up the experience and lessons from those years. All this is very good.

The Root of Changes in the Soviet Union and East Europe Was in China

I asked Hu Jiwei to sum up his experience and lessons in succinct terms. He said: To be frank, I believe that people like us are the true Marxists. Currently, the

Marxism that many people are advocating is actually anti-Marxist. Up to the present I still believe in Marxism. But I of course do not believe in many elements of Marxism such as the ideas of proletarian dictatorship and one-party dictatorship. The basic tenet of Marxism is to create a free society without oppression or exploitation. This view can still stand up. What people like us—including not only communists but also people in other circles—seek is but a society where everyone is equal and free, and has the right to live in freedom and the right of free expression. I have never changed my belief in the basic Marxist ideals. I do not think that my revolutionary work over the five to six decades has amounted to a mistake. The dictatorship-based socialism that Stalin implemented was totally wrong. Such socialism which also encompasses Mao Zedong's dictatorship-based socialism is fascist socialism, to which I am opposed. I believe that Stalin's proletarian dictatorship which became the practice of making class struggle the key link in China completely violated the basic principles of Marxism.

Finally, I asked Hu Jiwei: "In view of the changes in the Soviet Union and East Europe, how should the mainland's press policy be adjusted?"

Hu Jiwei said: "In my view, changes in the Soviet Union were linked to the impact of events in China and had their root in China. For, continuing dictatorship in China resulted in using the armed forces to suppress the people and in changing from ruling the people through relying on the backing of the armed forces into directly using the armed forces to suppress the people. This lesson was also learned by the world."

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